Agriculture
Canada

Policy
Branch

Direction générale
des politiques

WORKING PAPER

Canada

Working papers are (1) interim reports completed by the staff of the Policy Branch, and (2) research reports completed under contract. The former reports have received limited review, and are circulated in the language of preparation for discussion and comment. Views expressed in these papers are those of the author(s) and do not necessarily represent those of Agriculture Canada.

FEDERAL PROVINCIAL FISCAL ARRANGEMENTS AND SHARED-COST PROGRAMS IN AGRICULTURE

(Working Paper 2/91)

Patrick Grady
Global Economics Ltd.
Ottawa, Ontario

December 1990

This report was completed under contract with Policy Branch, Agriculture Canada, 1990.

91-01863/

ACKNOWLEDGMENTS

I owe a debt of gratitude to many people that helped me in the preparation of this paper. First and foremost, I am thankful to Bruce Huff and Doug Hedley of the Agriculture Canada who sponsored this study and provided valuable assistance and comments. Others in Agriculture Canada that provided comments or help include Tom Richardson, Gilles Lavoie and M. Cluff.

Staff of the Department of Finance were also very helpful. Barbara Blais of the Economic Development Division arranged a meeting with departmental staff to discuss the relationship between the Fiscal Arrangements and agricultural stabilization programs. I am especially grateful to Frank Gregg and Doug Clark of the Federal Provincial Relations Division of the Department of Finance for their kind assistance in providing much background information and in answering my questions on the Fiscal Arrangements. Bill Murphy of the same division also provided very useful comments on the section of this paper dealing with the Fiscal Arrangements.

In spite of all the assistance I received in preparing this paper, the views and opinions expressed in it are entirely my own and do not reflect those of Agriculture Canada or the Department of Finance.

TABLE OF CONTENTS

1. Introduction p.1
2. Background Information on Federal-Provincial Fiscal Arrangements p.2
    2.1 The Evolution of Federal-Provincial Fiscal Arrangements p.5
    2.2 The Current Status of the Fiscal Arrangements p.9
        2.2.1 Fiscal Equalization p.9
        2.2.2 Established Programs Financing p.11
        2.2.4 Fiscal Stabilization p.13
        2.2.5 Canada Assistance Plan p.13
    2.3 The Canadian Experience with Shared-Cost Programs p.14
    2.4 Disaster Financial Assistance p.16
    2.5 Trends and Provincial Distributions in Federal-Provincial Transfers p.17
    2.6 The Issue of Fiscal Imbalance p.21
    2.7 The Fiscal Capacity of Provinces p.24
    2.8 The Expenditure Needs of Provinces p.29
3. The Implications of Federal-Provincial Fiscal Arrangements for Agriculture p.32
    3.1 The Relevance for Agriculture of General and Other Sectoral Transfer Programs p.32
    3.2 Issues arising from Shared-Cost Programs in Agriculture p.33
        3.2.1 The Constitutional Basis for Shared-Cost Programs in Agriculture p.33
        3.2.2 The Rationale for Shared-Cost Programs in Agriculture p.38
        3.2.3 Shared-Cost Programs in Agriculture p.40
        3.2.4 Fiscal Consequences of Increasing Shared-Cost Programs in Agriculture p.42
        3.2.5 Implications for Cost Sharing of Programs in Agriculture p.44
    3.3 Conclusions on the Implications of the Fiscal-Arrangements and Agricultural Programs for Future Cost Sharing Relationships with the Provinces p.44
        3.3.1 Differences Between Shared-Cost Programs in Agriculture and Other Areas p.44
        3.3.2 Lessons from the Historical Experience with Other Shared-Cost Programs p.45
        3.3.3 The Fiscal Arrangements and Fiscal Capacity p.46
    3.4 Guidelines to Assist in the Development of Future Shared-Cost Programs in Agriculture p.47
    3.5 Suggestions for Further Work p.55
Selected References p.56
Appendix Tables p.59

1. INTRODUCTION

Agriculture Canada is concerned about the funding of agricultural programs as the number of shared-cost federal-provincial programs increase and requests from provinces for special assistance proliferate. Many of these requests are justified on the basis that the provinces do not have the ability to pay or the widespread extent of the problem. This raises questions of the appropriate interrelationships between agricultural programs and the federal-provincial fiscal arrangements. This study is designed to gain a better understanding of the principles involved in the federal-provincial fiscal arrangements and their relevance for agriculture and to establish clearer guidelines in responding to provincial requests.

This study examines the basis for federal-provincial fiscal programs and federal transfer programs from a theoretical, legal and historical point of view. It also examines the special case of agriculture and the shared federal-provincial responsibility for agriculture under the constitution. A primary focus is to assess the rationale for special assistance programs for provinces or commodity groups such as those for grain farmers within the context of the overall framework of federal-provincial fiscal relations. The study also examines the fiscal consequences of increasing shared-cost programs in agriculture.

Section 2, which covers Phase I of this study, assembles the background information on the federal-provincial fiscal arrangements. It includes a review of the evolution of the federal-provincial arrangements from a historical and legal point of view, tracing developments from the Rowell-Sirois Commission on Dominion-Provincial Relations, the National Adjustments Grants and tax sharing, to the Fiscal Arrangements Act (1987). The Canadian experience with shared-cost programs is summarised. The Disaster Financial Assistance arrangements are examined. The fiscal implications of the constitutional division of responsibilities between federal and provincial governments are also reviewed and analyzed. Section 2 of the study also contains a review and analysis of the available data on federal-provincial fiscal arrangements including trends and provincial distribution and provincial fiscal capacity and expenditure needs.

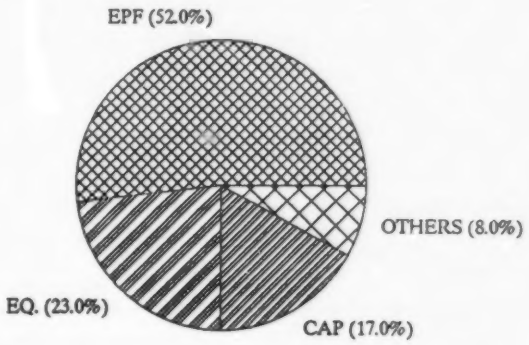
Section 3, which covers Phase II of this study, focuses on the implications of the federal-provincial fiscal arrangements for agriculture. The relevance for agriculture of other sector transfer programs in such areas as health and education as well as general transfer programs such as equalization is considered. Section 3 also examines the constitutional basis for federal shared-cost programs in agriculture, the rationale for federal shared-cost programs in agriculture, the evolution of shared-cost programs in agriculture, the fiscal consequences of increasing shared-cost programs in agriculture, and the implications for cost sharing of programs in agriculture. Section 3 also presents: conclusions on the implications of the fiscal arrangements and agricultural programs for future cost sharing relationships with the provinces. Issues critical for the development of principles for cost sharing with the provinces are underlined; some guidelines to assist in the development of future shared-cost programs in agriculture are offered; and some suggestions for further work.

2. BACKGROUND INFORMATION ON FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

Fiscal cash transfers from the federal government to provincial governments under the provisions of various programs are budgeted at $24.2 billion in 1990-91, or about 16.4 per cent of federal budgetary expenditures. These transfers account for more than 40 per cent of total revenues in the Atlantic provinces and just over 20 per cent in the high income provinces of Ontario, Alberta, and British Columbia. The Fiscal Arrangements Act alone accounts for three quarters of federal cash transfers. In addition to cash transfers, there are also tax transfers amounting to $11.3 billion in 1990-91. The percentage distribution of cash and tax transfers among the three major programs of Established Programs Financing (EPF), Equalization, and the Canada Assistance Plan (CAP) is given in Chart 1.

CHART 1

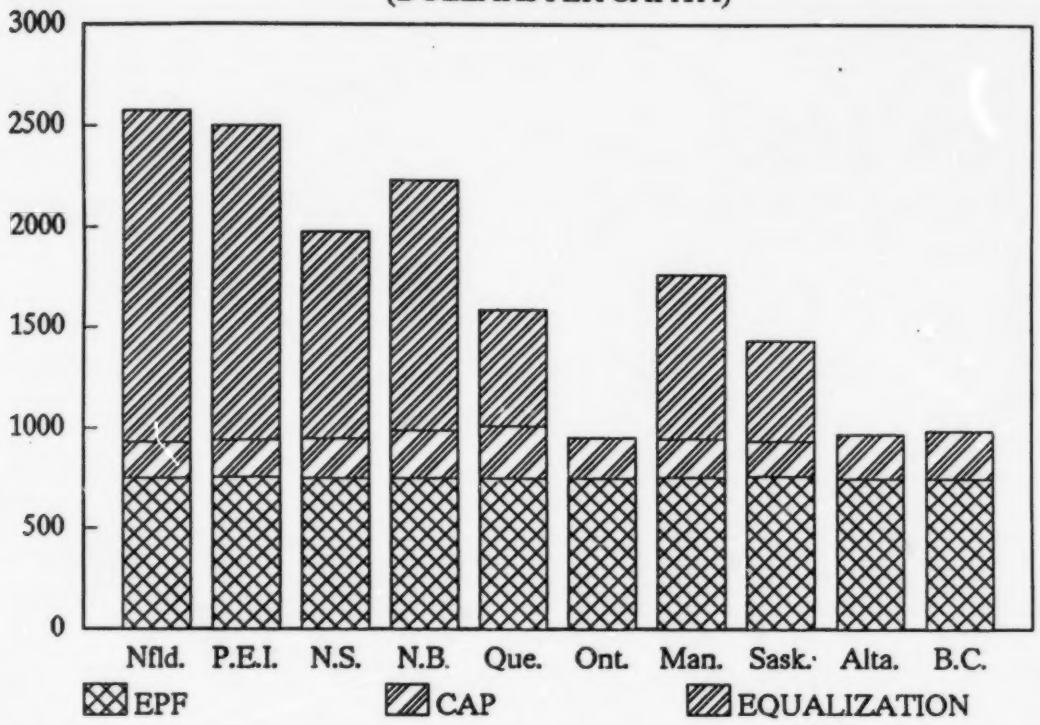
FEDERAL TRANSFERS BY PROGRAM, 1990–91



Projected per capita transfers in 1990-91 under the three largest programs are shown in Chart 2. The per capita EPF transfers are equal for all the provinces. Transfers under the Canada Assistance Plan are more variable as they depend on provincial spending on income maintenance and social services. Equalization payments are the most variable going to the provinces with a lower capacity to raise revenues than the average of the five standard provinces.

CHART 2

MAJOR FEDERAL TRANSFERS, 1990–91
(DOLLARS PER CAPITA)



Other programs counted as general purpose fiscal transfer payments include subsidies under the Constitution Acts, Public Utilities Income Tax Transfers, Reciprocal Taxation Payments, grants to municipalities in lieu of property taxes, and transfers to the territorial governments. These programs are budgeted to cost $1.5 billion in 1990-91 and account for 4 1/4 per cent of total transfer payments.

Specific transfers come under such rubrics as Crop Insurance, official languages in education, legal aid and Young Offenders Act related payments, contributions for the vocational rehabilitation of disabled persons, payments for alcohol and drug treatment and rehabilitation. Specific transfers will cost around $1 billion in 1990-91 and comprise 3 per cent of total spending on transfers.

2.1 THE EVOLUTION OF FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

The Federal government has paid statutory subsidies to the provinces since Confederation. This has stemmed from the greater access of the federal government to the main revenue sources. At the time of Confederation the Federal Government took over the most important revenue sources of the time, customs and excise taxes, and in return agreed to make annual payments to the provinces.

Revenues from customs and excise taxes became less important after the introduction of the income tax, but the Federal Government still maintained a greater access to the main revenue sources. This was not so much as a result of the distribution of powers to tax under the Constitution as from the position of the federal government as Canada's senior government and its prior occupation of the tax room. Under the Constitution Act the federal and provincial government are both empowered to rely on direct taxation such as the personal and corporate tax to raise revenue. (Section 92(2) of the Constitution Act of 1867 confers upon provinces the power to raise revenues by "Direct Taxation Within the Province" and Section 91(3) gives the federal government power to raise revenues "by any Mode or System of Taxation.")

By the 1930s the federal government and the provinces had in place personal and corporate income taxes. However, there was a lack of coordination that resulted in a "tax jungle." In addition, the provincial governments were in great financial difficulties. The Depression depressed their revenues and the heavy demands for spending on relief, highways and education kept their expenditures up. The federal government had been barred from direct spending in these areas by a restrictive interpretation of its constitutional responsibilities. Conditional and unconditional grants to the provinces were provided to meet pressing needs. There was a clear imbalance between spending responsibilities and abilities to raise revenues.

One response to the financial crisis of the 1930s was the establishment of the Rowell-Sirois Royal Commission on Dominion-Provincial Relations in 1937 to review federal-provincial fiscal relations. Two basic problems were examined: 1) the federal-provincial distribution of spending responsibilities and revenues; and 2) regional disparities.

The Rowell-Sirois Commission, which reported in 1940, recommended that the Federal Government take over the provincial debts, responsibility for unemployment relief, and pay a "National Adjustment Grant" to the poorer provinces. The provinces in return would turn over to the Federal Government the personal and corporate income tax and succession duties. The Commission was very critical of the lack of uniformity of Canadian tax policy from one province to another and of the plethora of discriminatory tax measures imposed by the provincial governments. It also criticized the duplication

in the administration of the tax system.

National Adjustment Grants, which were the precursors of equalization "were designed to make it possible for every province to provide, for its people, services of average Canadian standards."[1] They would be paid "whenever a provincial government established that it could not supply Canadian average standards of service and balance its budget without taxation (provincial and municipal) appreciably exceeding the national average in relation to income."[2]

The war prevented the implementation of the recommendations of the Rowell-Sirois report. A Dominion-Provincial Conference of 1941 failed to come to agreement on the division of taxing powers. But, given the obvious overriding wartime needs of the Federal Government, the provinces did accede to the Minister of Finance's request to refrain from imposing personal and corporate income tax in return for fixed annual rental payments until one year after the end of the war (1941-46). Thus started the Tax Rental Agreements that came to include all provinces but Quebec.

After the war in 1945 another Dominion-Provincial Conference was held at which the Federal Government introduced the "Green Book" containing a new set of proposals for federal-provincial fiscal relations. The Federal Government sought exclusive access to personal and corporate income taxes and succession duties and was willing to subsidize the provinces through a number of shared-cost programs. This proposal was unacceptable to the provinces, but, except for Quebec, they continued to participate in the Tax Rental Agreements because it would have been costly to set up their own provincial income tax systems. From 1947 to 1952 the tax rental was based on either a per capita payment or the revenue yield of the taxes (except for those to Prince Edward Island which were a specific lump sum). From 1952 to 1957 the tax rental payments were guaranteed to be above a certain minimum, with the actual amount adjusted upwards based on per capita GNP and population.

The principle of equalization as enunciated by the Rowell-Sirois Commission was eventually accepted in the final set of tax rental agreements covering the 1957 to 1962 period. Under this new agreement the federal government agreed to provide equalization payments to the provincial governments to bring the level of per capita yield from personal and corporate income taxes and succession duties up to the average of the yield in the two richest provinces. Equalization was received by all of the provinces except for Ontario. Over the years more and more revenue sources were added to the equalization formula. In 1967 the formula was broadened to include sixteen revenue sources and was based on national average yields rather than those in the two

---

[1] Report of the Royal Commission on Dominion-Provincial Relations (Ottawa: the Queen's Printer, 1940, p. 125.

[2] Ibid, p.83.

highest income provinces. Following some experimentation with ad hoc overrides of resource revenues in the late 1970s and with the "Ontario rider" that excluded from receiving equalization any province with income above the national average for three years, the formula was modified again in 1982 to be based on a five province standard. Growth of equalization payments were also capped at the growth of GNP from a 1982 base.

In 1962 the Tax Rental Agreements were succeeded by the Tax Collection Agreements that allowed provinces to impose their own income tax. As long as the tax was imposed on the federal base, then the federal government would administer the provincial acts as agents for the provincial governments free of charge. Under the new plan, in order to free up tax room for the provinces, the Federal Government reduced its tax bite by 16 per cent of personal income tax (increasing to 24 per cent in 1966), and 9 per cent of corporate profits . The Federal Government also agreed either to give the provinces 50 per cent of the revenues from federal succession duties or to grant an abatement equal to 50 per cent of the federal tax in the provinces that chose to levy their own succession duties. Under the Tax Collection Agreements Quebec continued to collect its own personal and corporate income tax and Ontario its own corporate income tax.

The principle of opting out has an important place in the evolution of Canada's system of federal-provincial transfers. It first occurred in 1960 when Quebec pulled out from the federal university grant program in return for a tax abatement of 3 points. The current opting out arrangements began with the Established Programs (Interim Arrangements) Act in 1965 and allowed provinces to opt out of particular shared-cost programs up to October 1965. Eligible for compensation in the form of tax points were hospital insurance (16 points), and special welfare programs (5 points). Qualifying for cash compensation were several smaller programs. Only Quebec exercised its right to opt out by the deadline. Quebec's total abatements of tax points were 24 points prior to the 1972 tax reform and 1977 EPF. After adjustment for the 9.143 equalized tax points transferred under EPF and conversion for the new lower federal tax base after tax reform, Quebec had 16.5 tax points as a result of opting out.

The Canada Assistance Plan was introduced in 1966 to encourage "the further development and extension of assistance and welfare programs throughout Canada by sharing more fully with the provinces in the cost."[3] It replaced the four main specific federal-provincial shared-cost social welfare programs with a more general cost sharing of provincial welfare and assistance schemes. CAP requires participating provinces to provide assistance to any person in need, without imposing a residence requirement. In return the federal government pays 50 per cent of the cost of sharable assistance and welfare services.

---

[3] Canada Assistance Plan, 1966-67, c.45, s.1, p.711.

In 1972 the federal government agreed under the tax collection agreements to administer provincial tax credits for a nominal cost. According to a 1981 submission on the fiscal arrangements made to the Parliamentary Task Force on Fiscal Arrangements by the Minister of Finance, three general guidelines are followed to determine whether a measure will be administered under the Tax Collection Agreement. "First, the measure must be able to be administered reasonably effectively. Second, the measure must not significantly erode the essential harmony and uniformity of the federal and provincial income tax systems. Third, the measure must not jeopardize the efficient functioning of the Canadian economic union by the erection of income tax barriers to normal interprovincial investment flows."[4]

In the 1980s the Prairie provinces were allowed to impose flat taxes on net income or taxable income instead of basic federal tax.

Alberta withdrew from the agreement for the corporate tax in 1981 to get more control over its corporate tax structure. Ontario and Quebec have never entered into the Tax Collection Agreement with respect to their corporate tax.

The federal financing of hospital insurance, medicare, and post-secondary eduction, which was the Federal Government's most expensive shared-cost program, was put on a new footing under the 1977 Fiscal Arrangements Act, called Established Programs Financing. It replaced a system of cost sharing through conditional grants (and tax points for post-secondary education) with transfers based on 1975-76 expenditure on these programs escalated by population and a three-year moving average of GNP per capita. The transfers are made in the form of tax points and cash transfers. A consequence of the end of cost sharing was that the provinces spent less on health and education than otherwise. By 1982 the Federal Government was paying around 60 per cent of the cost compared to about 50 per cent under the old shared-cost arrangements.

The Federal Government moved in 1984 to reassert more control over provincial spending with the passage of the Canada Health Act which declared that the health payments would be reduced dollar for dollar for any amounts collected through extra billing by doctors or user fees. To underline the connection between payments and provincial spending on health and post-secondary education, the act was renamed the Federal-Provincial Fiscal Arrangements and Post-Secondary Education and Health Contributions Act. Starting in 1986-87, the Federal Government also began to scale back on the escalation factor for payments, ultimately freezing it for two years starting in 1990-91, in order make a contribution to deficit reduction.

---

[4] Department of Finance, Federal-Provincial Fiscal Arrangements in the Eighties, A Submission to the Parliamentary Task Force on the Federal-Provincial Fiscal Arrangements, April 23, 1981, p. 54.

2.2 THE CURRENT STATUS OF THE FISCAL ARRANGEMENTS

2.2.1 Fiscal Equalization

The Fiscal Equalization Program makes unconditional transfers to provinces that have relatively low capacity to raise revenues to finance public services. Seven provinces currently receiving payments are the four Atlantic provinces, Manitoba, Quebec and Saskatchewan. The transfers are made under Part I of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act. In 1990-91 Fiscal Equalization will transfer $8.2 billion to the qualifying provinces.

The objective of the Program is enshrined in Part III Section 36 (2) of the Constitution Act, 1982 in the following terms:

> "(2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

Equalization is, thus, designed to redress the problem that "while all provinces have the same responsibilities under the Constitution, their capacity to finance these responsibilities through taxation varies significantly from one province to another."[5]

The present Fiscal Arrangements Act and accompanying regulations, which was authorized on April 1, 1987 for a period of five years, specifies a formula that provides a comprehensive measure of each province's capacity to raise revenue from taxation. Each province's per capita capacity is compared to a per capita standard based on the average per capita capacity in five representative provinces, hence called the five province standard. The five representative provinces are British Columbia, Saskatchewan, Manitoba, Ontario, and Quebec. Excluded is Alberta the province with the highest per capita revenue generating capacity and the Atlantic provinces with the lowest per capita revenue generating capacity.

A provinces entitlement is equal to its population multiplied by the per capita revenue shortfall, if any, between its yield from the representative tax system and the average per capita yield of the system in the five standard provinces.

---

[5] Department of Finance, Federal-Provincial Relations Division, The Fiscal Equalization Program, April 1990, p.1.

The five province standard was adopted in the 1982 revision to the Fiscal Arrangements to make the equalization formula less sensitive to resource revenues. The run-up in oil prices in the 1970s would have caused a ballooning of equalization payments and would have even qualified Ontario for equalization if the federal government had not introduced several ad hoc overrides that capped resource revenues and precluded any province with per capita income above the national average from receiving equalization. The five province standard accomplished the same objectives, but in a less arbitrary and ad hoc way. As Alberta is not one of the five provinces, the weight accorded resource revenue in the formula is not disproportionate.

It is the federal government's position that natural resource can not be viewed as a normal means of financing a reasonable level of public services in most provinces because they constitute such a small proportion of revenue in most provinces. Also it is difficult for the federal government to pay equalization on resource revenues since it does not have access to the resource revenues to finance the payments.

The present Fiscal Arrangements Act allowed certain supplementary payments made in the previous five years to lapse. Regulations were introduced to make minor adjustments in the definitions of certain equalization sources. As no provinces were using succession duties and gift taxes, they were removed from the formula. Currently there are 32 revenue sources specified in the formula covering virtually all provincial revenue sources, including personal income tax corporate income tax, sales tax, and property tax. There is also a miscellaneous residual category.

It might be useful to present the calculation behind the equalization formula in more detail. For each of the 32 revenue sources and the residual, a base is chosen that is close to that actually used by the provinces. Then for each revenue source a national average tax rate is determined by dividing total revenues in all provinces by the all province base for the particular revenue source. The national average rate is then applied to the tax base for each revenue source in each province and in the five standard provinces taken as a group. Equalization payments associated with each revenue source are calculated by taking the difference between the per capita yield of the revenue source in the province estimated at the national average tax rate and the per capita yield in the five standard provinces also estimated at the national average tax rate and multiplying the result by the provinces population. Equalization associated with a revenue source may be positive (a deficiency) or negative (an excess). Total equalization owing a province is calculated by summing up the deficiencies and excesses. If the balance is positive, the amount is paid to the province as equalization. If it is negative, no equalization is paid.

In the 1982 revision to the Fiscal Arrangements Act, the growth of equalization payments from 1983-84 was constrained to not exceed the growth of GNP from a 1982 base. This ceiling, which was reached in 1987, is binding in 1990-91 and will limit program spending to a level 23.7 per cent above the 1987-88 base.

There are also floor provisions that guarantee each individual provinces against a year-over-year reduction in its equalization entitlement of more than 5, 10 or 15 per cent depending on the revenue raising capacity of the province. According to the Federal-Provincial Relations Division's paper on equalization,

> "At the present time, Newfoundland and Prince Edward Island are protected against more than a 5 per cent decline (because their fiscal capacity is below 70 per cent of the national average); New Brunswick against more than a 10 per cent decline (because its per capita fiscal capacity is between 70 and 75 per cent of the national average); Saskatchewan, Manitoba, Quebec and Nova Scotia against more than a 15 per cent decline (because their per capita fiscal capacities are above 75 per cent of the national average)."[6]

The Federal-Provincial Relations Division captures the essence of the program in noting

> "since the equalization standard is the same for all provinces, the provinces that qualify for equalization in a fiscal year are all raised, through the program, to an exactly equal level of revenue raising capacity. Hence, they are said to be "equalized."[7]

2.2.2 Established Programs Financing

Total Established Programs Financing (EPF) payments are budgeted at $19.5 billion in 1990-91. Of this, $8.2 billion are cash, $10.3 billion tax transfers, and $1 billion associated equalization. Viewed another way, $13.9 billion are for health and $5.6 billion for post-secondary education.

The EPF grew out of earlier shared-cost programs in health and education. The Federal Government began joint programs with the provinces in health with the National Health Grants which were part of the postwar reconstruction program. In the 1950s and 1960s the Federal Government encouraged the development of a nation-wide

---

[6] Federal-Provincial Relations Division, The Fiscal Equalization Program, p.8.

[7] Federal-Provincial Relations Division, The Fiscal Equalization Program, p.4.

health insurance system and the expansion of post-secondary education though cost sharing. The enabling legislation for health insurance was the Hospital Insurance and Diagnostic Services Act of 1957, and the Medical Care Act of 1966. Under cost sharing the Federal Government paid roughly 50 per cent of the eligible costs of hospital insurance, medical care, and post-secondary education.

In the mid-1970s there was growing dissatisfaction with cost sharing from both the federal and provincial government. The Federal Government was unhappy with rapid growth of shared-cost payments and believed that the availability of 50 cent dollars was interfering with the provinces' incentive to control costs. The extent of this latter problem may have been somewhat overstated. Since under the cost-sharing formula the provinces only received 25 per cent of actual costs and 25 per cent of national average costs for hospital insurance and 50 per cent of national costs for medicare, cost sharing payments for an individual province were not tied that closely to that province's actual costs. Nevertheless, it was clear that the open-ended nature of the cost sharing arrangements limited the ability of the Federal Government to control and predict its own spending. The provincial governments were dissatisfied with the extent to which the cost sharing arrangements limited their flexibility to manage their own programs and allocate their own resources. Wide per capita differences in transfers to different provinces was also a source of discontent.

In 1977 the federal financing of hospital insurance, medicare, and post-secondary education was put on a new footing. Since the programs were "established" and their continuation was assured by public support, the Federal Government eliminated its cost shared grants and introduced the Established Programs Financing under then Part VI now part V of the Fiscal Arrangements Act. Under this program, the Federal Government provides a "block fund" transfer that the provinces can allocate according to their own spending priorities.

Some constraints were imposed on the provinces by the 1984 Canada Health Act which clarified standards already in the legislation. Under the previous legislation, the only possible penalty for a province violating program standards was the termination of the entire transfer. Under the CHA, the response was more measured and health payments were required to be withheld dollar for dollar for any provinces that allowed doctors to extra bill or established user fees.

The EPF transfer takes the form of an equal per capita payment to the provinces. The total payment is calculated by multiplying the per capita payment by the province's population. Each province's per capita EPF entitlement is determined by multiplying the national per capita federal contribution for insured health services and for post-secondary education in 1975-76, plus an added amount for extended health care services in 1977-78, by an escalation factor based on economic growth. The escalator was originally a lagged three year moving average of growth in per capita gross national product. But it was reduced to the rate of growth of GNP less 2 percentage points in

the May 1986 budget and GNP less 3 percentage points in the April 1989 budget. The February 1990 budget announced the government's intention to freeze the per capita EPF transfer in 1990-91 and 1991-92 at its 1989-90 level. Bill C-69 implementing this change provides for a resumption of EPF growth in 1992-93 at the rate of growth of GNP less 3 percentage points.

The EPF transfer consists of two relatively equal parts - tax points and cash payments. The tax points are 13.5 personal income tax points, and 1 corporate tax point. The net gain to the provinces in 1977 amounted to 9.143 tax points since 4.357 points of personal income tax and 1 point of corporate tax had already been transferred to the provinces under the former financing arrangements for post-secondary education. The value of the tax points is subtracted from the value of the total payment to yield the cash payment.

2.2.4 Fiscal Stabilization

Under Part II of the Federal-Provincial Fiscal Arrangements Act the Federal Government agrees to provide fiscal stabilization payments to the provinces if their revenue subject to stabilization declines. Since 1987 part of the federal contribution has been made in the form of cash and part in the form of a loan. While payments have only been made twice under this provision since it was instituted in 1957 (B.C. in respect of 1982-83 and Alberta in respect of 1986-87), it is generally regarded to be useful because of the importance attached to it by credit rating agencies and lenders.

2.2.5 Canada Assistance Plan

The Canada Assistance Plan (CAP) is the largest fiscal transfer program after EPF and Equalization and is only remaining major shared-cost program. It does not come under the Federal-Provincial Fiscal Arrangements Act, but under its own separate act.

In 1990-91 CAP cash expenditures are expected to be $5.2 billion. Counting the tax transfer to Quebec of $618 million, total CAP expenditures are forecast to be $5.8 billion in 1990-91.

CAP supplanted four major provincial shared-cost programs in the area of social welfare in 1966 when the Canada Assistance Plan Act and Regulation took effect. These programs were Old Age Assistance, Blind Persons Allowances, Disabled Persons Allowance, and Unemployment Assistance. The Federal Government had financed 50 per cent of all these programs except for Blind Persons Allowance where its share was 75 per cent. CAP expands the assistance available from these four categories to more

generally providing special assistance to persons in need or likely to become in need, welfare assistance to persons in need, and supporting work activity projects.

CAP follows the design of its predecessors. Under it the Federal Government reimburses the provinces for 50 per cent of the cost of all eligible provincial expenditures for special assistance to the needy and for welfare. The eligibility conditions as set out in the preamble to the Act are relatively lenient. Assistance must be provided on the basis of "need". It must adequately reflect the basic requirements of the recipients for food, clothing, shelter and other necessities. Also no residency tests can be employed. Within these broad guidelines provinces are free to establish their own rates and categories of assistance. Until the last budget CAP transfers have been open-ended, but this is no longer the case.

The February 1990 budget announced the government's intention to limit the growth in CAP transfers to provinces not receiving equalization (Ontario, British Columbia, and Alberta) to 5 per cent for 1990-91 and 1991-92 and only to resume full 50 per cent cost sharing for all provinces in 1992-93. The British Columbia government challenged before the courts the Federal Government's right to impose such a limit without giving the required one-year notice specified in the agreements with the provinces, and was supported by the governments of Ontario, Alberta, and Manitoba. The British Columbia Court of Appeal ruled this summer that the CAP agreement and the way it has functioned "give rise to a legitimate expectation that the Government of Canada would introduce no bill into Parliament to limit its obligation without the consent of British Columbia." The Federal Government is appealing the B.C. ruling.[8]

2.3 THE CANADIAN EXPERIENCE WITH SHARED-COST PROGRAMS

Conditional grant programs have been part of federal-provincial financial relations since 1913. Shared-cost programs proliferated after World War II. Conditional grants grew from $46 million in 1945 to $1.2 billion in 1965 before the introduction of CAP, to $6.7 billion in 1975 before the EPF transfer to the provinces. After 1977 conditional grants declined significantly and stood at $6.3 billion in 1990-91.

At the end of World War I conditional grants were given for assistance for highways, technical education, the control of diseases, and the maintenance of employment offices. Some of the most important programs introduced after World War II by the Federal Government were: health grants in 1948; the Trans-Canada Highway in 1950; social welfare programs such as old age assistance, disabled persons' allowances

---

[8] Reference re: Canada Assistance Plan [1990] B.C.J. No. 1377, June 15, 1990.

works in 1958; new grants for technical and vocational training in 1960; economic development grants such as ARDA and FRED in the 1960s; and medicare in 1968. The 1960s were the heyday of conditional grants.

The Federal Government's experience with shared-cost programs has not been entirely satisfactory in all respects. The Rowell-Sirois Commission warned that

> "...the conditional grant, as it works under Canadian conditions, is an inherently unsatisfactory device... the experience with conditional grants leads us to doubt whether joint administration of activities by the Dominion and a province is ever a satisfactory way of surmounting constitutional difficulties."[9]

Donald Smiley, writing in 1963, was critical of conditional grants on the grounds that they violate the principle of provincial accountability, infringe provincial autonomy, and create distortions in the spending patterns of the provinces. He recommended that the then present arrangements relating to public health, hospitalization and resource development should be liquidated. But he also acknowledged that "With all their defects, conditional grants have brought an invaluable element of adaptability to a federal structure which has proved remarkably resistant to change through constitutional amendment or evolving patterns of judicial review."[10]

George Carter in his comprehensive review of Canadian conditional grants published in 1971 reported the main provincial criticisms of conditional grants and noted the then federal proposals to introduce block funding in the fields of health and social welfare.

Dissatisfaction with shared-cost programs was widespread. Quebec had a long drawn out controversy with the Federal Government over university grants in the 1950s. Other provinces joined Quebec at the Dominion-Provincial Conference in 1960 in opposing the grants in principle in the case of well-established programs. At a Federal-Provincial Conference in 1964 the Federal Government put forward its offer to allow provinces to contract out of well-established programs involving regular expenditures. Only Quebec took up the offer at the time, but in 1977 with Established Program Financing health and post-secondary education grants were transformed from conditional grants into unconditional. In 1978 a bill was even introduced that would have changed the social service component of CAP into a block grant similar to EPF. By the end of the 1970s the pendulum had clearly swung away from shared cost programs. The Canada Assistance Program was the only remaining major shared cost program.

---

[9] Royal Commission on Dominion-Provincial Relations, Report, p.259.

[10] Donald V. Smiley, Conditional Grants and Canadian Federalism, pp.65-72.

2.4 DISASTER FINANCIAL ASSISTANCE

Disaster Financial Assistance arrangements are of interest to those concerned with developing shared-cost programs in agriculture. They were set up in 1970 to help provincial governments with the costs of dealing with disasters. The most common types of disasters are floods and tornadoes and other storms. The arrangements, which are administered by Emergency Preparedness Canada, have no enabling legislation and the payments take the form of *ex gratia* payments to provincial governments. The arrangements are thus very flexible. Provinces are required to ask the Federal Government for assistance in a letter. The Federal Government then decides whether assistance will be provided based on criteria contained in a Manual.

The assistance is designed to help provinces to get individuals, small business and municipalities back on their feet after a disaster. The assistance is not intended to compensate fully for losses from disasters. The assistance does not generally cover anything that is or could be insured. Assistance to the provinces is usually provided well after the provinces have made the disbursements to the victims of the disaster. This allows the Federal Government time to determine what provincial expenditures are eligible and to audit the expenditures. The formula for cost-sharing is that the province bears the first $1 per capita in assistance, the next $2 up to $3 per capita is split 50/50, the next $2 up to $5 per capita is divided 75 per cent federal and 25 per cent provincial, and any amount over $5 per capita is borne 90 per cent by the Federal Government. Some provinces have tried to have general drought assistance covered by the arrangements, but the Federal Government has refused.

The amount of assistance provided to the provinces under Disaster Financial Assistance has not been large. Since 1970 the federal government has paid out $160 million in assistance. This year $4 or $5 million in assistance is expected to be provided. The Federal Government is currently considering a request from the British Columbia Government for assistance of $10 to $15 million to help deal with the recent B.C. flood.

2.5 TRENDS AND PROVINCIAL DISTRIBUTIONS IN FEDERAL-PROVINCIAL TRANSFERS

Detailed tables on federal-provincial transfers are provided in an appendix to this paper.

The three major federal transfer programs have grown at an average annual rate of around 8 per cent over the decade ending this year (Chart 3 and 4). This is slightly more rapidly than the growth in program expenditures (budgetary expenditures less public debt charges) and about one percentage point less than the growth in budgetary expenditures. EPF has increased less rapidly than the other two programs and CAP more rapidly. On average the major transfer programs grew most quickly in the first three years of the decade slowing in 1984-85 and subsequent years. EPF slowed after 1985-86 because of the reductions in the escalator introduced as part of government efforts to reduce the deficit. Equalization declined in 1985-86 as transitional payments to smooth the move to the 1982 formula ended and payments to Quebec, Manitoba and Nova Scotia fell, but then experienced three years of very strong growth as payments resumed their growth in these provinces. On average, the three major federal transfer programs grew 5.8 per cent per year over the 1984-85 to 1990-91 period. This is more rapid than the 3.6 per cent growth rate of federal total expenditures over the same period.

CHART 3

MAJOR FEDERAL TRANSFERS TO PROVINCES

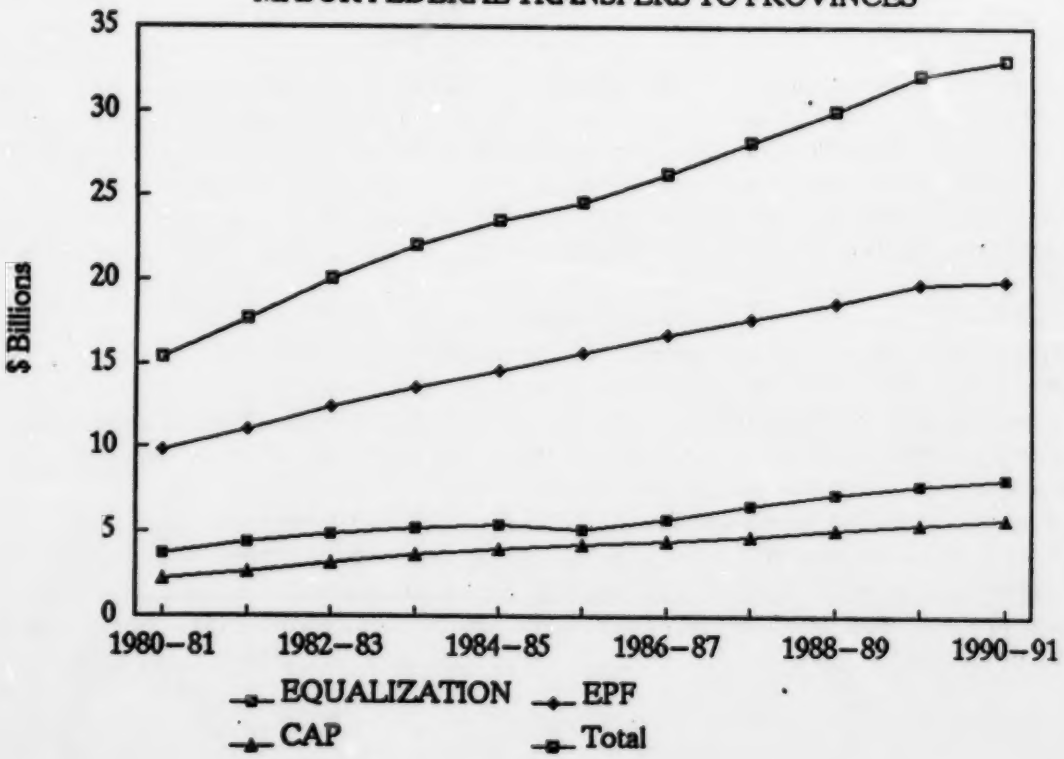
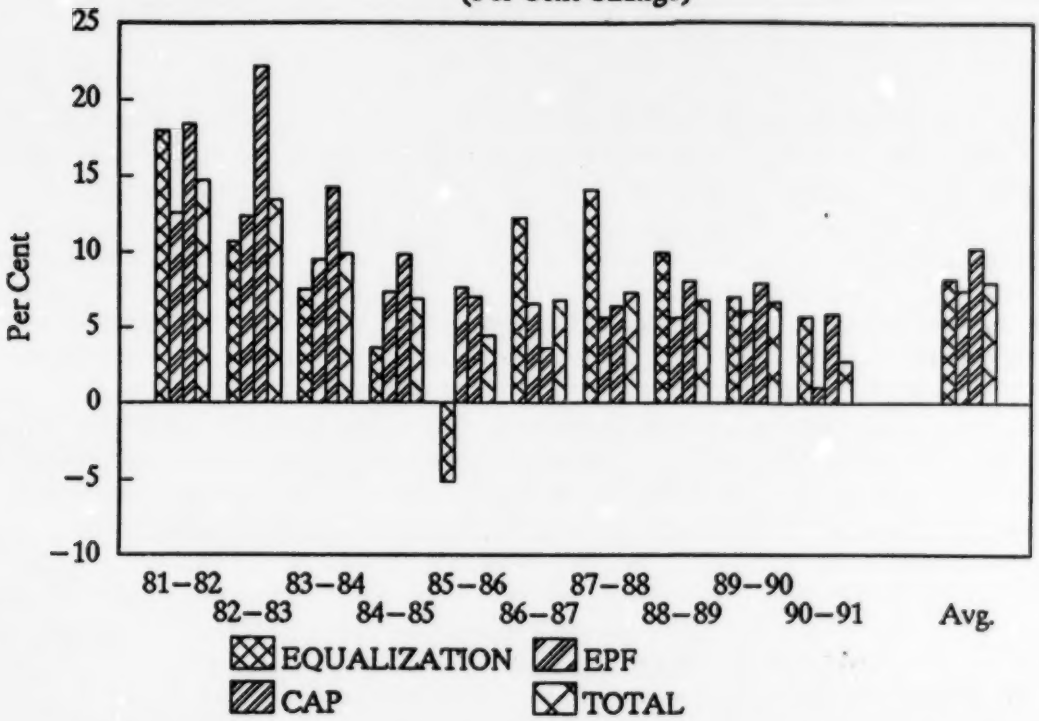


CHART 4

GROWTH IN MAJOR FEDERAL TRANSFERS
(Per Cent Change)



Over a longer time period, the growth of equalization is more striking. Equalization entitlements totalled only $139.1 million in 1957-58 the year the program was introduced. By 1980-81 Equalization had reached $3.7 billion, registering an annual rate of growth over twenty two years of over 16 per cent much more rapid than the 10 1/2 per cent average growth recorded by GNP. Growth was especially rapid over the period of the 1962-67 and 1972-77 fiscal arrangements.

The distribution of Canada's population across the provinces is shown in Chart 5. This provides a standard of comparison for the distribution of the main transfer programs. EPF is distributed the same as population. But Equalization is concentrated in the lower income provinces (Chart 6). Quebec will receive almost a half of equalization payments in 1990-91, which is much greater than its 26 per cent share of population. On a per capita basis, however, payments to Quebec are much lower than those to the Atlantic provinces and Manitoba. The Atlantic provinces with less than 9 per cent of the population will receive over a third of equalization. Manitoba will receive two and a half times its population share in equalization. Saskatchewan will receive a 60 per cent greater share of equalization than of population. Its per capita entitlement is the lowest of the provinces.

CHART 5

PROVINCIAL DISTRIBUTION OF POPULATION
IN 1990

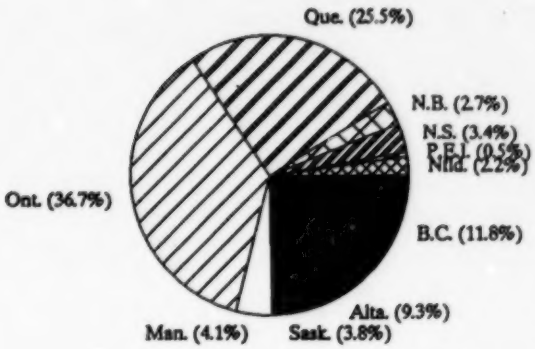
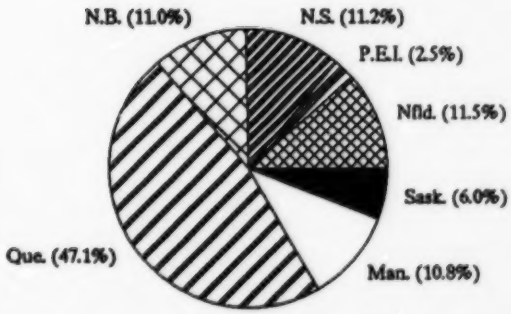


CHART 6

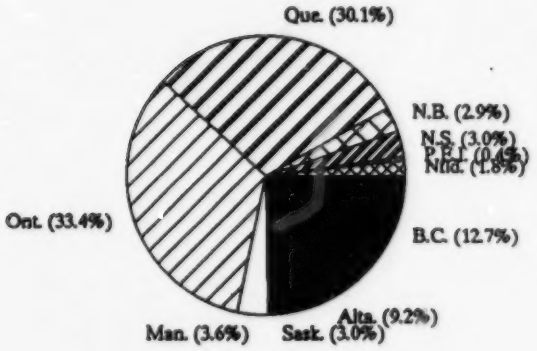
PROVINCIAL DISTRIBUTION OF
EQUALIZATION IN 1990–91



The distribution of CAP payments is much closer to population than are equalization payments (Chart 7). The most striking divergences are for Quebec which gets a much larger share than its population and for Ontario which gets a smaller. It is also noteworthy that except for New Brunswick all of the Atlantic provinces and Saskatchewan and Manitoba get a smaller share of CAP payments than their share of population.

CHART 7

PROVINCIAL DISTRIBUTION OF
CAP PAYMENTS 1990–91



2.6 THE ISSUE OF FISCAL IMBALANCE

The issue of an imbalance between spending responsibilities and revenue sources has been a perennial one in Canadian fiscal history. An imbalance is said to occur when one level of government begins to run a persistent deficit or surplus in its account. During the 1960s provincial governments argued that they had responsibility for the most rapidly growing areas of public expenditures, namely health and education, but that their revenue sources were less elastic than the federal government's. Consequently, the provinces expected a tendency for growing deficits to be manifest at the provincial level and surpluses at the federal level. This problem was alleviated by the transfer of tax points to the provinces in the 1960s. In 1982 following the emergence of a massive federal deficit, the previous federal government contended that a structural imbalance exists at the federal level.[11] The current federal government compared its deficit, debt charges and debt with those of the provinces in the 1990 budget.[12] The need to reduce the federal deficit has served as the rationale for cut-backs in the growth of federal transfer payments to provinces.

The Economic Council argued that the issue of fiscal imbalance can not be called a long-term structural economic problem since both levels of government in Canada have access to all major revenue sources. But they acknowledged that the issue of imbalance requires hard political and social choices and that deficit reduction will require unpopular reductions in expenditures or increases in taxes.[13]

A comparison of the per capita federal and provincial fiscal balances in fiscal years 1989-90 and 1990-91 on a Financial Management System Basis is provided in Chart 8. The fiscal balances in 1990-91 are based on a coding of this year's spring round of federal and provincial budgets and hence does not incorporate the impact of recent developments such as the likelihood of a recession and the sharp run-up in the international price of oil.

---

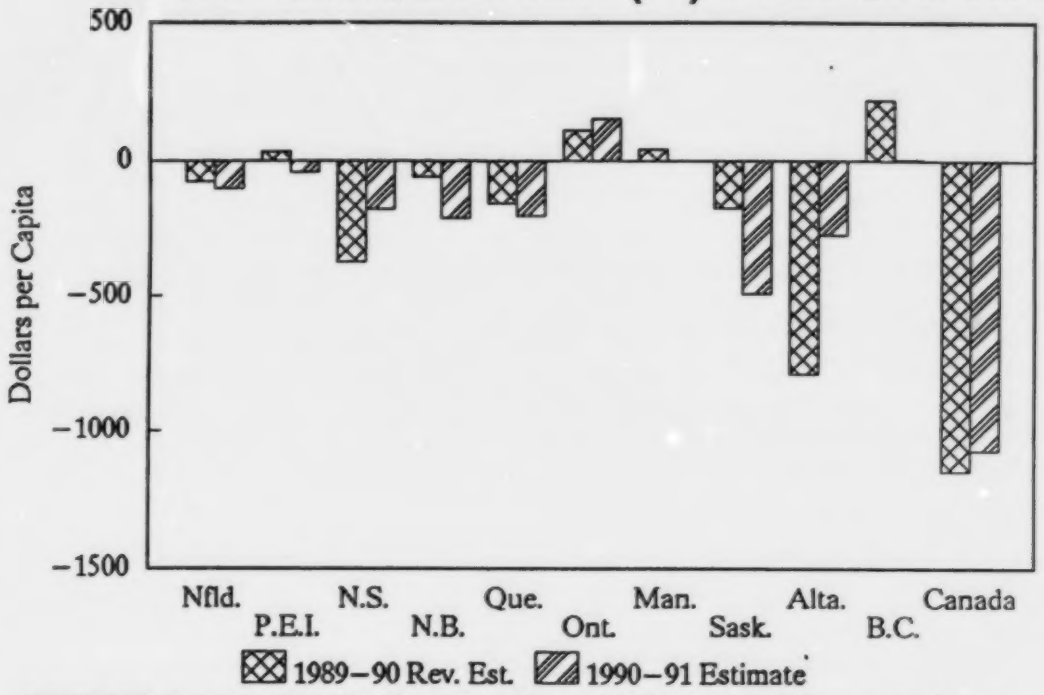
[11] This view was put forward by Finance Minister Allan J. MacEachen in a brief to the Breau Task Force. See Allan J. MacEachen, "Federal-Provincial Fiscal Arrangements in the Eighties," p.19.

[12] Minister of Finance, The Budget, February 20, 1990, pp.122-130.

[13] Economic Council of Canada, Financing Confederation, p.7.

CHART 8

SURPLUS/DEFICIT(−) PER CAPITA

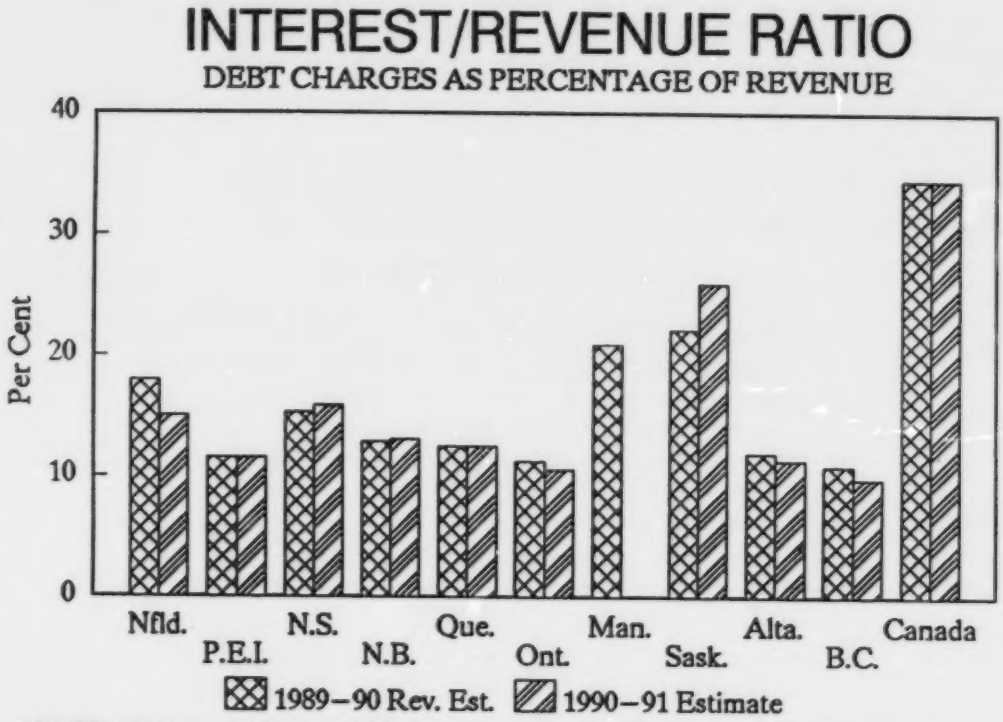


SOURCE: Statistics Canada. Data is on Financial Management System Basis.

The extent to which the federal deficit at $1,160 per capita in 1989-90 and $1,068 in 1990-91 is higher than that of any of the provinces is striking. Even this modest improvement in the federal deficit is becoming increasingly unlikely given the prospect of recession. The only province with a deficit approaching that of the federal government was Alberta in 1989-90. But the Alberta deficit is projected to come down sharply in 1990-91. If the recent increase in the price of oil were taken into account, the Alberta deficit in 1990-91 would be transformed into a surplus. The deterioration of the Saskatchewan deficit in 1990-91 is worrisome. The recent run-up in the price of oil will raise revenues in Saskatchewan, but the increased revenue will be offset by decreases in equalization. The non-oil producing provinces are likely to experience a deterioration in their deficit in 1990-91 from that estimated in the chart.

An important indicator of the strength of fiscal position is public debt charges as a percentage of revenue or the interest/revenue ratio. It is the inverse of the interest coverage ratio. Chart 9 shows that interest charges account for a much higher proportion of revenue for the Federal Government than for any of the provincial governments. Public debt charges account for 34 1/2 per cent of revenue for the Federal Government compared to only about 12 1/2 per cent for the provincial governments. Only Saskatchewan and Manitoba have significantly higher percentages. The burden of financing public debt charges is clearly much greater for the Federal Government than for any of the provincial governments.

CHART 9



NOTE: Data is on Financial Management System Basis except for Federal Government which is on a Public Accounts Basis.

While the deficits and interest/revenue ratios of the provinces are relatively smaller than those of the Federal Government, it is important to recognize that the ability of provincial governments to finance the deficit is also much less. Nevertheless, even taking this into consideration, it is evident that the fiscal position of the Federal Government is significantly worse than that of the provinces.

2.7 THE FISCAL CAPACITY OF PROVINCES

There are several measures of the relative fiscal position of provinces. The first is the relative "fiscal capacity" of a province. It is a measure of the ability of a province to get revenue from available sources and is calculated both for own source revenues and own source revenues plus equalization. The second is the relative "tax effort" of a province. This is a measure of the revenue that a province raises relative to the revenue it would raise if it were to levy taxes at the average provincial rates. These measures have been provided by the Federal Provincial Relations Division of the Department of Finance.

The measure of relative fiscal capacity from own sources is shown in Table 1. It is estimated for each province by taking the per capita yield of own source revenues from a standardized tax system, which applies a uniform tax rate to a uniform tax base for each revenue source. Own source revenue excludes interest revenues of provincial governments, all non-tax revenues of local governments, and federal transfer payments.

The large variation in relative fiscal capacity from own source revenues across provinces and the stability in recent years of the provincial positions is evident from the table. The strong position of Alberta stemming from oil and gas revenues with an index of 136 is noteworthy. While this is down from a level of well over 200 in the late 1970s, it is still head and shoulders above the other provinces and more than twice the level in Newfoundland and PEI, the lowest income provinces. The disparity will grow when the recent oil price increase is factored into the 1990-91 estimates. The position of Saskatchewan should also strengthen with higher oil prices though to a much lesser extent.

Table 2 shows that equalization substantially reduces the disparity in fiscal capacity among provinces. While Alberta remains much higher, the disparity among the other nine provinces decreases markedly when equalization is taken into account and falls within an 11 percentage point range. Equalization brings all of the equalization receiving provinces up to the same level. Again the impact of the recent increase in the price of petroleum has not been taken into account in the 1990-91 estimates. When it is,

the position of Alberta should strengthen. For example to provide an order of magnitude estimate of the likely impact, a $10 per barrel increase in the price of oil translates roughly into an additional $1 billion in revenue for Alberta. Saskatchewan will also experience an increase in revenue, but it will be offset by a decrease in equalization.

An indicator of tax effort is provided in Table 3. It is calculated by dividing the revenues a province actually receives by the revenues that the representative tax system would yield in the province at average provincial rates. Tax effort varies considerably across provinces. The lowest level of tax effort at 72.7 per cent is in Alberta; the highest level of tax effort at 112.0 per cent is in Quebec. The Prairie provinces of Saskatchewan and Manitoba at 104 and 105 per cent have relatively high levels of tax effort. The Atlantic provinces except for Newfoundland have lower than average levels of tax effort. The increase in the level of tax effort in Ontario from below the all provinces average in 1987-88 to above in 1990-91 is striking, especially given the importance of tax increases in Ontario in pulling up the national average. The decrease in the relatively high tax burden in Quebec over the same period is also noteworthy. If tax effort was adjusted for the surpluses and deficits, the disparity in tax effort would widen since large deficits tend to be correlated with high tax effort. Unfortunately, data on the adjusted measure of tax effort is not available.

TABLE 1
INDICES OF PROVINCIAL LOCAL FISCAL CAPACITY
OWN SOURCE REVENUES

	1987-88	1988-89	1989-90	1990-91
Nfld	60.4	61.9	62.4	62.6
PEI	64.1	64.5	64.5	64.6
NS	75.9	75.4	75.9	76.0
NB	71.2	71.3	71.1	71.2
Que	85.4	85.7	85.7	85.8
Ont	108.2	110.4	110.3	109.8
Man	80.2	80.1	80.6	80.7
Sask	90.3	87.3	86.6	87.7
Alta	145.6	134.9	135.6	136.2
BC	103.9	105.4	104.5	103.9
All Prov.	100.0	100.0	100.0	100.0

Source: Federal Provincial Relations Division, Finance

TABLE 2
INDICES OF PROVINCIAL LOCAL FISCAL CAPACITY
OWN SOURCE REVENUES PLUS EQUALIZATION

	1987-88	1988-89	1989-90	1990-91
Nfld	91.8	91.8	91.7	92.1
PEI	91.8	91.8	91.7	92.1
NS	91.8	91.8	91.7	92.1
NB	91.8	91.8	91.7	92.1
Que	91.8	91.8	91.7	92.1
Ont	101.3	103.3	103.4	102.9
Man	91.8	91.8	91.7	92.1
Sask	91.8	91.8	91.7	92.1
Alta	136.3	126.3	127.1	127.6
BC	97.2	98.7	97.9	97.3
All Prov.	100.0	100.0	100.0	100.0

Source: Federal Provincial Relations Division, Finance

TABLE 3
INDICES OF PROVINCIAL-LOCAL TAX EFFORT
ACTUAL REVENUES

	1987-88	1988-89	1989-90	1990-91
Nfld	108.1	106.0	99.8	99.6
PEI	95.2	96.0	91.9	92.1
NS	94.7	91.4	89.1	89.4
NB	91.7	97.8	98.5	98.4
Que	118.9	116.1	112.4	112.0
Ont	98.3	100.1	102.6	104.2
Man	115.1	111.7	106.3	105.0
Sask	104.5	103.1	107.0	104.0
Alta	77.4	72.4	73.6	72.7
BC	92.4	96.9	95.7	93.5
All Prov.	100.0	100.0	100.0	100.0

Source: Federal Provincial Relations Division, Finance

2.8 THE EXPENDITURE NEEDS OF PROVINCES

Indexes of consolidated provincial-local expenditure per capita for all of the provinces for the fiscal year 1986-87 (the latest year currently available on a consolidated basis) are given in Table 4. These indexes are calculated by taking the ratio of per capita expenditures in a particular province to the all Canada average. It is notable that the variation in per capita spending is much less than fiscal capacity. Provinces tend to provide broadly comparable levels of public services. The greatest expenditure effort according to this measure is made by Alberta and the least by the Atlantic provinces. Quebec and Saskatchewan also have a relatively high level of expenditure effort. The spending effort of no province is so high relative to its fiscal capacity that it can not afford to participate in any shared-cost program likely to be introduced.

The amount that provinces spend on agriculture varies from province to province (Table 5). The provinces that spend the most per capita are Saskatchewan, Alberta, and Prince Edward Island. (Manitoba would also be a relatively big spender, but the 1990-91 budget for spending on agriculture is not yet available from Statistics Canada on a intergovernmentally comparable Financial Management System Basis.) Quebec spend more than three times as much as Ontario on a per capita basis. An important point to note is that while the amount spent on agriculture varies significantly from province to province, even the provinces with the heaviest expenditures spend a relatively small portion of their budgets on agriculture. Thus no province can legitimately complain that it spends so much on agricultural programs that it can not to afford to participate in any of the shared-cost programs likely to be proposed.

TABLE 4
INDEX OF CONSOLIDATED PROVINCIAL-LOCAL EXPENDITURE PER CAPITA IN 1986-87

Province	1986-87
Alberta	130
Quebec	109
Saskatchewan	108
Manitoba	103
Newfoundland	91
Ontario	90
British Columbia	88
New Brunswick	84
Nova Scotia	83
Prince Edward Island	80
All Prov.	100

SOURCE: Statistics Canada, Financial Management System.

TABLE 5
AGRICULTURAL EXPENDITURE BY PROVINCES
IN 1990-91

	Thousands of Dollars	Dollars Per Capita	Per Cent of Average	Share of Total Spending
Nfld	16,264	28.38	38	0.49
PEI	32,039	245.70	325	4.40
NB	43,867	49.20	65	0.97
NB	37,883	52.33	69	0.94
Que	626,422	92.64	123	1.63
Ont	280,767	28.85	38	0.59
Man	NA	NA	NA	NA
Sask	257,210	257.13	340	4.59
Alta	560,548	226.96	300	3.71
BC	70,084	22.38	30	0.41
All Prov. ex Man	1,926,371	75.56	100	1.41

SOURCE: : Statistics Canada, Financial Management System. Manitoba data is not available for 1990-91, because a provincial election delayed the presentation of the budget until fall.

3. THE IMPLICATIONS OF FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS FOR AGRICULTURE

3.1 THE RELEVANCE FOR AGRICULTURE OF GENERAL AND OTHER SECTORAL TRANSFER PROGRAMS

The main fiscal transfer programs are relevant for shared-cost programs in agriculture in different ways.

1) Equalization has a direct bearing on the fiscal capacity of provinces and their abilities to participate in shared-cost programs in agriculture.
2) EPF provides an example of how difficulties can arise with shared cost-programs in health and education and how such programs can be transformed into a block conditional grant with their own particular problems.
3) CAP is the largest ongoing shared-cost program.

The experience with other sectoral shared-cost programs also has lessons for the agriculture sector. It is important that agricultural shared-cost programs be based on the same set of principles as other shared-cost programs. Otherwise precedents set in the area of agriculture could be used by the provinces in arguing for major changes in the basis of other shared-cost programs.

A proper understanding of the what equalization does should lay to rest any concerns that provinces do not have the fiscal capacity to participate in agricultural shared cost programs. Equalization raises the fiscal capacity of the lowest income provinces to about 92 per cent of the national average level. After equalization, the fiscal capacities of all the provinces with the exception of Alberta are clustered in a relatively narrow range. Thus no province can argue convincingly that its revenue base is so weak that it can not afford to participate in an agricultural shared cost program.

This leaves the issue of whether any particular province might have such great expenditure needs that it can not afford to participate in agricultural shared cost programs. An examination of expenditure effort as measured by per capita provincial expenditures relative to the national average indicates that the variation in per capita expenditures is less than the variation of fiscal capacity. In addition, while it is true that provinces such as Saskatchewan and Manitoba spend relatively heavily on agricultural programs, they spend less in other areas and agricultural spending does not account for a large proportion of their budget. A thorough analysis of provincial expenditure needs would be extremely difficult and quite controversial. It would also require a sizable federal-provincial task force working many years to produce conclusive results and is well beyond the scope of this study. For the present, suffice it to say that there is no evidence that the expenditure needs are so heavy in any of the provinces that they can not afford to participate in agricultural shared-cost programs.

3.2 ISSUES ARISING FROM SHARED-COST PROGRAMS IN AGRICULTURE

3.2.1 The Constitutional Basis for Shared-Cost Programs in Agriculture

Section 95 of the Constitution Act 1867 specifies that agriculture is a concurrent responsibility. Either the federal or provincial governments thus may exercise jurisdiction in relation to agriculture. However, if a conflict of legislation occurs, the federal law prevails. The Federal Government has been heavily involved in agriculture since Confederation in order to pursue the national interest in this key sector. The Prairie grain economy has been a beneficiary of Federal government initiatives since its inception. The Federal Government was responsible for building the railway that opened the Prairies and for encouraging immigration. In the crisis of the 1930s the Federal Government took several important steps. In 1929 it assumed the debts of provincial grain pools. In 1935 the Canadian Wheat Board was set up to handle the international marketing of Canadian grain. Since this clearly invaded provincial jurisdiction over intra-provincial marketing and the elevator system in western Canada, it had to be done under Section 92 (10c) of the Constitution Act 1867 under which the Federal Government can declare anything to be in the federal jurisdiction as long as it is for the "general Advantage of Canada...or of Two or more of the Provinces."[14] The Prairie Farm Assistance Act, which was passed in 1939, to protect the Prairies against future droughts by creating a fund to pay for crop loss indemnities financed in part by a 1-per-cent levy on producers, was also justified on this basis. These actions led to a *de facto* recognition of the primary role of the Federal Government for agriculture on the Prairies. There was no real resistance from the provinces because they did not have the fiscal capacity to take on the task themselves.

The Federal Government also has a responsibility for agriculture under the "trade and commerce" clause of the Constitution Act 1867(Section 91 (2), under which control over international and interprovincial trade are assigned to the Federal Government. This provides the Federal Government with a clear mandate for its jurisdiction over international and interprovincial marketing.

Research is another recognized area where the Federal Government has exercised leadership. The development of Marquis wheat and canola are but two of the better known success stories for Federal agricultural research. Provincial governments also maintain agricultural research establishments.

---

[14] This declaration was found to be constitutionally valid by the courts in Jorgensen v. Attorney General Canada, [1971] S.C.R. 725.

The transfer of fiscal capacity to the provinces under the Fiscal Arrangements in the post-war period has strengthened the ability of provinces to assume a larger role in the development of agriculture and the provision of safety nets within their own provincial boundaries.

The establishment of marketing boards under the Canadian Dairy Commission Act of 1966 and the Farm Product Marketing Agencies Act of 1971 was accomplished by joining the federal and provincial powers together to create national marketing boards with delegated powers. Resort to Section 91(10c) of the Constitution Act, 1867 was no longer an acceptable *modus operandi* as it was for the establishment of the Canadian Wheat Board. An earlier effort to establish marketing legislation under the Natural Products Marketing Act of 1934 had been declared *ultra vires.*

Under Section 93 of the Constitution Act 1867 provinces are given responsibility for education. This has been interpreted to include agricultural extension.

The Federal Government can also use conditional grants to induce the provincial governments to undertake desired actions in areas of provincial responsibilities. In accordance with its "spending power" the federal government is free to spend its tax dollars any way it likes.

The Federal Government in a 1969 policy paper noted that "the power of Parliament to legislate has been interpreted by the courts as giving it the power to spend on any object providing the legislative authority does not amount to a regulatory scheme falling under provincial powers." It is based on Section 91(3) of the Constitution Act, 1867 which gives Parliament the power to raise money by any mode or system of taxation and on Section 91(1A) which gives Parliament the right to make laws respecting the public debt and property. The latter clause has been construed to include all Federal Government assets including the Consolidated Revenue Fund.[15]

The precedent setting case on which the courts have pronounced on the constitutionality of conditional grants concerns the reference regarding the Employment and Social Insurance Act of 1935. There has not been much adjudication on the constitutionality of conditional grants because provinces, which are the parties most affected, have preferred to settle their differences with the Federal Government through federal-provincial negotiations. The most widely quoted part of the decision of the Judicial Committee of the Privy Council reads:

> "That the Dominion may impose taxation for the purpose of creating a fund for special purposes, and may apply that fund

---

[15] Pierre Trudeau, Federal-Provincial Grants and the Spending Power of Parliament, p.12.

> for making contributions in the public interest to individuals, corporations or public authorities could not as a general proposition be denied ... But assuming that the Dominion has collected by means of taxation a fund it by no means follows that any legislation which disposes of it is necessarily within Dominion competence.
>
> It may still be legislation affecting the classes of subjects enumerated in Section 92, and, if so, would be *ultra vires*. In other words, Dominion legislation, even though it deals with Dominion property, may yet be so framed as to invade civil rights within the province; or to encroach upon the classes of subjects which are reserved to Dominion competence. It is not necessary that it should be a colourable device or pretence. If on the true view of the legislation it is found that in reality in pith and substance the legislation invades civil rights within the province, or in respect of other classes of subjects otherwise encroaches on the provincial field, the legislation will be invalid. To hold otherwise would afford the Dominion an easy passage into the provincial domain."[16]

The Judicial Committee of the Privy Council's general upholding of the spending power combined with vague qualifications have given rise to controversy on the constitutional limits of federal spending power. On the one hand, Bora Laskin and G.V. La Forest have argued that the Federal Government can make grants to the province for any purpose as long as they do not amount to legislation or regulation in an area of provincial jurisdiction.[17] Frank Scott has claimed that the spending power is based on the royal prerogative and equated spending with giving. On the other hand, the Quebec Royal Commission on Constitutional Problems argued in the early 1950s that qualifications in the decision preclude grants in areas of exclusive provincial jurisdiction.[18] In the middle are those who argue that it is all right to provide grants as long as specific taxes are not levied or funds established to finance the grant.

---

[16] As quoted in Donald Smiley, Conditional Grants and Canadian Federalism, p.19. The "Winterhaven Stables" case heard by the Alberta Court of Queen's Bench in 1985 and appealed to the Supreme Court in 1988 provides a recent confirmation of the Federal role.

[17] Bora Laskin, Canadian Constitutional Law (Toronto: Carswell, 1966), p.666 and G.V. La Forest, The Allocation of Taxing Powers Under the Canadian Constitution (Toronto: Canadian Tax Foundation, 1967), pp.36-41.

[18] Discussed in Pierre Trudeau, Federal Provincial Grants, p.114.

In its 1969 policy paper the Federal Government contended that there should be two important limitations on the use of the spending power. First, there should be a broad national consensus supporting its use; second, there should be no fiscal penalty on provinces that choose not to participate.[19]

There is widespread support for the principle that provinces that choose not to participate in a national shared-cost program in an area of exclusive provincial jurisdiction should be offered reasonable compensation provided that the province carries on a program or initiative that is compatible with national objectives. This option to "opt out," which was modelled on that offered in 1965 for several shared-cost programs and taken up by Quebec, was to have been formally introduced as an amendment to the constitution under the Meech Lake Accord (Section 106a).

While the Federal Government can clearly use its spending powers to make conditional grants to the provinces, it is not necessary in the case of most agricultural programs because the Federal and provincial governments share joint jurisdiction over agriculture.

The recent decision by the B.C. Court of Appeal in the reference regarding the Canada Assistance Plan has important implications for shared-cost programs, including those in agriculture. The Federal Government announced its intention in the February 1990 budget to limit the growth in payments under CAP to the non-equalization receiving provinces to 5 per cent per year for the next two years. This limitation was introduced in House of Commons in Bill C-69, the Government Expenditure Restraint Act. The B.C. Attorney General referred this matter to the B.C. Court of Appeal pursuant to the Constitutional Question Act, R.S.B.C. 1979. Specifically, the Court was asked to pronounce on two questions:

> (1) Has the Government of Canada any statutory prerogative or contractual authority to limit its obligation under the Canada Assistance Plan, R.S.C. 1970, C-1 and its Agreement with the Government of British Columbia dated March 23, 1967, to contribute 50 per cent of the cost to British Columbia of assistance and welfare services?
>
> (2) Do the terms of the Agreement dated March 23, 1967 between the Governments of Canada and British Columbia, the subsequent conduct of the Government of Canada pursuant to the Agreements and the provisions of the Canada Assistance Plan Act, R.S.C. 1970, c. C-1, give rise to a legitimate expectation that the Government of Canada will introduce no bill into Parliament to limit its obligation under the Agreement or the Act without the consent of

---

[19] Pierre Trudeau, Federal Provincial Grants, p.38.

British Columbia?[20]

The majority of the court represented by three of the five judges (Toy J.A., Hinkson J.A., and Legg J.A.) answered "No" to the first question and "Yes" to the second in their joint opinion written by Toy J.A.. A fourth judge, Lambert J.A. gave the same answer, but for different reasons. The fifth judge, Southin J.A., agreed with the majorities answer to the first question, but answered "No" to the second question.

The consensus on the first question that the Federal Government did not have any statutory prerogative or contractual authority to limit its obligation under the Canada Assistance Plan Act stemmed from the fact that Bill C-69 had not yet been passed by Parliament. Counsel for the Federal Government did not contest this point.

The majority opinion on the second question hinged on the doctrine of "legitimate expectations" that has been evolving in both England and Canada over the last 30 years to protect individuals from arbitrary administrative actions of government. The majority argued that the B.C. Government had a private law right or "legitimate expectation" under the terms of the plan and the agreement that the Federal Government would not amend the agreement except by mutual consent or unless terminated by consent or on one year's notice. The introduction of Bill C-69 to amend the agreement constitutes a "procedural impropriety." They rejected the Federal Government's argument that the court should not answer question 2 since it was a political rather than a legal question.

The majority acknowledged a reservation that "Circumstances could arise where the Cabinet in exercising its executive functions might be justified in precipitately acting without consent and with minimal consultation with the Province of British Columbia and the other provinces that have signed similar agreements."[21]

The fourth judge, Lambert J.A., took a much harder line in answering the second question. He concluded that "the federal proposal to place a cap of 5 per cent on increases in the contributions by Canada to the cost of providing assistance to those in need in British Columbia would if carried out constitute a breach by Canada of an undertaking given by Canada, and a breach of an obligation imposed on Canada by the terms of a federal-provincial agreement, voluntarily entered into." He stated, however, that he did not think that the Federal Government had intentionally decided to breach its undertaking or obligation.[22]

---

[20] Reference re: Canada Assistance Plan [1990] B.C.J. No. 1377, June 15, 1990, pp.1-2.

[21] Ibid, p.15.

[22] Ibid, p.33-34.

The fifth judge, Southin J.A., disagreed strongly with the other judges answer to question 2 and sided with the Federal Government in his dissenting opinion. He argues that there is no limitation on the executive power of Parliament and rejects the arguments that would "engraft into the Executive Power of the Constitution Acts a doctrine of 'legitimate expectation'."[23]

The Federal Government is appealing the decision of the B.C. Court of Appeal to the Supreme Court of Canada. In the meantime the decision stands and has important implications for all shared-cost programs, including those in agriculture. The Federal Government should recognize that as long as the decision stands it can not unilaterally alter the terms of shared-cost agreements unless the agreements themselves have clauses allowing the Federal Government to do so.

3.2.2 The Rationale for Shared-Cost Programs in Agriculture

It is in the national interest for the Federal government to introduce shared-cost programs in agriculture. First, the Federal Government has a responsibility for agriculture under Section 95 of the Constitution Act, 1867. Second, the Federal Government has responsibility for trade and commerce. Shared-cost programs can be necessary to support the Federal Government's international trade objectives as are pursued through GATT and the Canada-U.S. Free Trade Agreement. The agriculture sector can be damaged by the trade policies followed by other countries. The Federal Government may need to provide assistance to farmers to maintain their international competitiveness and to protect Canada's market share against heavily subsidized competition such as Canada is now facing in the international grain market. Third, shared-cost programs may be necessary to provide income support to farmers that other Canadians derive from Unemployment Insurance for which farmers are not eligible. Fourth, adjustment to economic forces such as are being required of the Prairie grain economy should be viewed as a national objective and, thus, demands Federal government involvement.

The traditional economic argument in favour of shared-cost programs in general is that the benefits of the program extend beyond the provincial borders.[24] If this is

---

[23] Ibid, p.40.

[24] The theory of federal states suggests governmental activities should be organized at the lowest level at which the costs and benefits of the activities can be internalized. This permits the welfare of citizens to be maximized by allowing those with similar preferences for public goods to group together. In this way federal states are better than unitary. However, to the extent that it is not possible completely to internalize all

the case, equating the marginal cost of the program to its benefits will not result in the optimal amount of expenditures on the program. For instance, if benefits extend beyond the borders as with health and education, too little will be spent on the program. In this case, the appropriate federal shared-cost share would be equal to the proportion of the benefits falling outside the province. The likelihood that only a small proportion of benefits would spill over has lead some observers such as Boadway to question if the 50/50 sharing typical of shared-cost programs was overly generous.[25] Gramlich has argued that in the United States where spillovers should be greater because of the smaller relative size of junior governments the contribution of the federal government should rarely exceed 20 per cent.[26]

A second argument in favour of shared-cost programs is that there is a need in certain key areas such as health, education and welfare for the Federal Government to establish national standards. The need for national standards can be justified in terms of spillovers or more broadly in terms of an overriding national interest.

A third argument is based on the notion that there is an imbalance in the taxing powers and spending responsibilities of the two levels of government with the federal government possessing the lion's share of tax sources and the provincial governments the greatest spending responsibilities in such costly areas as health and education. While it is true that the provinces are limited by the Constitution Act 1867 to levying direct taxes whereas the Federal Government is not subject to any such restriction, in practice the provinces have not really been constrained in their ability to raise revenues. They have only been barred from levying tariffs on goods from other provinces or abroad, imposing taxes on non-residents, and levying sales taxes before the retail level. The broad taxing powers of the provincial governments in conjunction with the divergent trends in federal and provincial deficits have undermined the imbalance argument in favour of shared-cost programs.

A fourth argument is based on the concept of fiscal equity. In accordance with

---

costs and benefits within jurisdictional areas, it is necessary to have the central government impose taxes and subsidies to force subsidiary governments to take into account external costs and benefits in their decisions concerning the provision of public goods. The economic theory of federalism is presented in Wallace E. Oates, Fiscal Federalism (Chicago: Harcourt, Brace, Jovanovich, 1972) and Albert Breton and Anthony Scott, The Economic Constitution of Federal States (Toronto: University of Toronto Press, 1978).

[25] Robin W. Boadway, Intergovernmental Transfers in Canada (Toronto: Canadian Tax Foundation, 1980), p.53.

[26] E.M. Gramlich, "Federalism and Federal Deficit Reduction," National Tax Journal, Vol.XL, No. 3 (1987), p.305.

horizontal equity, citizens in the same circumstances should be subject to the same tax rate and enjoy the same quality of public services regardless of where they live in the country. This is not always easy to determine, however, because citizens in different parts of the country may have different preferences for public services. Consequently, the best way to promote fiscal equity is probably through unconditional grants rather than shared-cost programs.

A fifth argument is that shared-cost programs may enable the federal government to coordinate or standardise a program and thus minimize duplication and inefficiency.

A sixth argument is that shared-cost programs will provide both governments with an incentive to ensure that the programs are operated as efficiently and effectively as possible so as to achieve their objective at the lowest cost.[27]

A final argument is that shared-cost programs may be more cost efficient in that they allow the federal government to take advantage of provincial government expertise and resources.

There have also been several criticisms of shared-cost programs. First, some concern has been voiced that shared-cost programs undermine the autonomy of provincial governments and force changes in their legitimate priorities. Second, many believe that accountability of governments is best maintained if the government spending the money is responsible for raising it. Third, shared-cost programs are sometimes announced after provincial budgets are set, thus disrupting provincial budgetary planning. Fourth, there is a worry that some provinces might be induced by shared-cost programs to spend more than they can afford and contribute to an increase in deficits and debt. Fifth, shared-cost programs can lead to inadequate attention to controls over spending since the full cost of the spending is not borne by those making the spending decisions. Sixth, provinces that choose not to participate are subjected to taxation without benefit. Seventh, shared-cost programs can lead to federal-provincial conflict and delays. While the concerns expressed in these criticisms should be borne in mind, they do not constitute a definitive case against shared-cost programs.

3.2.3 Shared-Cost Programs in Agriculture

The Federal government has made conditional grants to the provinces in the area of agriculture since 1913 when it offered grants for agricultural instruction for a ten-year period. To qualify for these grants provinces had to meet certain standards.

---

[27] This argument was made by the Federal-Provincial Safety Net Committee, Report, p.7.

The Agricultural Rehabilitation and Development Act (ARDA) of 1961 was a shared-cost program that provided matching closed-end grant to increase income and employment opportunities in rural areas. The grants were for rural land use, water conservation, soil improvement, and the diversification of rural economic activity. In 1966 another conditional grant program the Fund for Rural Economic Development (FRED) was established. Unlike ARDA under this program the Federal Government paid the full costs of certain projects. In 1969 these programs were consolidated with other programs for regional development and social adjustment under the new Department of Regional Economic Expansion.

The most important current agricultural shared-cost program is the Special Federal-Provincial Assistance Program. This program, which can be viewed as a successor to the Special Canadian Grains Program and is budgeted at $500 million, is designed to provide income support to farmers in 1990. Ninety per cent of the contribution will go to grain and oilseed producers. The payout of funds will be administered by the provincial governments. The Federal Government hoped that with the participation of provincial governments this special program would provide $1 billion to Canadian farmers. But provincial contributions were disappointing, falling far short of the matching target. In many cases the provincial contribution was merely a repackaging of existing provincial programs.

The most important ongoing shared-cost program is Crop Insurance, which was introduced in 1959. Its purpose is "to provide stability to farmers' incomes by minimizing the fluctuations resulting from crop production losses due to uncontrollable natural hazards."[28] The costs of this program are shared between the federal and provincial governments and farmers. Until 1989 the Federal Government and producers each paid matching premiums and the provincial government bore the administrative costs. Since 1989 both levels of government contribute 25 per cent of the total premium and 50 per cent of the administrative costs of the program. Farmers pay no more than 50 per cent of premiums, but the federal and provincial shares vary depending on whether the province pays the whole administrative cost. The 1990-91 budget for crop insurance is $233 million.

The National Tripartite Stabilization Programs covering such commodities as hogs, cattle, lambs, beans, sugarbeets, apples and onions are also shared-cost programs. The distinctive characteristic of tripartite programs is that insurance programs are shared by the farmer, the federal government, and provincial governments. They were established under the Agricultural Stabilization Act, following an 1974 amendment to the Act that provided for federal-producer and federal-provincial-producer cost sharing.

---

[28] Federal-Provincial Relations Office, Federal-Provincial Programs and Activities A Descriptive Inventory 1989-90, p.1-3.

The Canadian Crop Drought Assistance Program is a shared-cost program to help farmers who suffered crop losses as a result of the 1988 drought. The Prairie provinces, Ontario and Quebec that participated in this program contribute 25 to 50 per cent of program costs. The Federal Government makes payments to the producers. This program, which is not ongoing was budgeted at $788 million in 1989-90.

There are a number of other shared-cost programs. These include: Capital Assistance for Veterinary Colleges; the Rabies Indemnification Program; Research Station Buildings; and Federal-Provincial Agricultural Sub-agreements. The latter cover: Agri Food Development; Livestock Feed Development; Cooperation Agreements; and National Soil and Water Conservation Agreements. The general rule for these programs is 50/50 cost sharing, but some specific programs have different cost sharing ratios.

The Agriculture Canada discussion paper Growing Together put forward the principle that "Funding of safety net programs should be cost-shared among producers, provincial governments and the federal governments."[29]

3.2.4 Fiscal Consequences of Increasing Shared-Cost Programs in Agriculture

Table 6 provides a summary of existing expenditures on shared-cost programs as set out in the 1990-91 Main Estimates. This does not include the cost of the new safety net being developed for the grain and oilseeds sector. The quantum leap in resources devoted to shared-cost programs resulting from the temporary Canadian Crop Drought Assistance Program and Special Federal/Provincial Assistance Program in 1989-90 and 1990-91 is evident.

The Grain and Oilseed Safety Net Committee has prepared estimates of the cost of the proposed GRIP/NISA programs. Assuming 70 to 80 per cent coverage in the Prairies and 90 per cent elsewhere the average costs over the 15 year period 1981-1995 are estimated to be in the $1.15 to 1.61 billion under the basket approach and $1.27 to $1.72 billion under the commodity specific approach.[30] Federal contributions would be in the $400 to $600 million range. The cash flow impacts on the Federal Government's fiscal position would be even greater in the short run if grain prices remain depressed. The GRIP account(s) could be expected to run a large deficit that would have to be financed.

---

[29] Agriculture Canada, Growing Together, A Vision for Canada's Agri-Food Industry, November 1989, p.54.

[30] Grain and Oilseed Safety Net Committee, Report to Ministers of Agriculture, August 1990, p.39.

TABLE 6
EXPENDITURES ON SHARED-COST PROGRAMS IN AGRICULTURE
(Millions of Dollars)

	1987-88 Actual	1988-89 Actual	1989-90 Forecast	1990-91 Estimate
Special Fed./Prov. Assistance Program	-	-	-	500
Crop Insurance	215	194	275	233
National Tripartite Stabilization Program	223	162	125	56
Canadian Crop Drought Assistance Program	-	18	788	-
Federal/Provincial Agricultural Sub-agreements	37	37	34	55
Special Regional Development Initiatives	11	13	15	14

Source: 1990-91 Main Estimates, Parts II and III.

The GRIP/NISA programs may not be the only new shared-cost programs. Market returns are expected to remain weak and the gap between net cash income and the $2.5 to $3.0 billion target income range in the grains and oilseeds sector is forecast to be in the $1 to $1.5 billion range.[31] Even with an extended averaging period for support prices, GRIP will not provide an adequate level of income support to fill a gap of this magnitude. It may thus be necessary to introduce third line of defence measures and it may be desirable that they take the form of shared-cost programs.

In the light of the new shared-cost programs under development and the continuing pressure for more financial support until farm incomes improve, it is likely that the resources devoted to shared-cost programs in agriculture will continue to increase. This will no doubt pose difficulties for the government because of its commitment to expenditure restraint and deficit reduction. The situation would be even worse, however, if the Federal Government were to bear the whole burden of supporting farm incomes without seeking to share the costs with the provinces.

---

[31] Farm Finance and Taxation Division, Policy Branch, Agriculture Canada, Farm Income Financial Conditions and Government Expenditures, July 1990, p.6.

3.2.5 Implications for Cost Sharing of Programs in Agriculture

While the proposed expansion in agricultural shared cost programs would in part replace spending on Crop Insurance and other second line of defence measures, it would still significantly raise the $1 billion the Federal Government now spends on specific purpose transfer payments to provinces other than the Canada Assistance Plan. This would reverse the trend since the mid-1970s away from reliance on shared cost programs.

The forms and structures of the new shared-cost programs in agriculture would have to be closely monitored to ensure that they were consistent with those in other share-cost programs.

3.3 CONCLUSIONS ON THE IMPLICATIONS OF THE FISCAL-ARRANGEMENTS AND AGRICULTURAL PROGRAMS FOR FUTURE COST SHARING RELATIONSHIPS WITH THE PROVINCES

3.3.1 Differences Between Shared-Cost Programs in Agriculture and Other Areas

There are important differences between the recent and prospective application of shared-cost programs to agriculture and their earlier application in other areas. The motivation for shared-cost programs in health, education and welfare was for the Federal Government to exert leadership in areas of provincial jurisdiction in establishing national standards. The Federal Government was clearly responding to popular demands for new services. In contrast, the motivation for current round of interest in shared-cost programs in agriculture would seem to be more related to fiscal pressures on the Federal Government to limit spending on providing income support for a depressed grain economy and only to a lesser extent to the desire to establish national standards.

There is no absolute constitutional requirement for provincial participation in Federal agricultural programs because they are within existing federal powers of Section 95 of the Constitution Act, 1867. There are four reasons why the establishment

of new shared-cost programs in agriculture might be desirable to the Federal Government in the present circumstances:

> 1) The Federal Government's own exposure to increased spending on agricultural income support could be reduced.
>
> 2) Provinces that are paying part of the bill would be less likely to press for higher income support levels.
>
> 3) Cost-sharing is more consistent with the joint jurisdiction that the Federal Government and the provinces share over agriculture.
>
> 4) Program administration and delivery would be facilitated by joint federal-provincial action. For example, the proposed Gross Revenue Insurance Program could be more efficiently run using the administrative apparatus established for Crop Insurance.[32]

The first two reasons seem to be the most important for trying to establish a new grain and oilseeds safety net on a shared-cost basis. If there had not been a U.S.-E.E.C. grain price war and a drought on the Prairies, it is not likely that the push for a new shared-cost safety net would be so strong. On the other hand, the second two reasons are probably more important in other areas such as the National Tripartite Stabilization Programs. Provincial governments had been introducing their own stabilization programs on a piecemeal basis and the Federal Government wanted to establish national standards. The best way to establish national standards yet to allow for provincial flexibility is through a shared-cost program.

Another important difference between the proposed use of shared-cost programs to fund safety nets in agriculture and the use of shared-cost programs outside of the agricultural area is that the agricultural shared-cost programs involve contributions by producers as well as the provinces.

3.3.2 Lessons from the Historical Experience with Other Shared-Cost Programs

The most important warning from past experience is that there has always been much dissatisfaction over shared-cost programs on the part of both the Federal and provincial governments. This is why there has been a trend away from shared-cost programs in other areas such as health and education where block grants were substituted for shared-cost programs. While these programs were already "established"

---

[32] Grain and Oilseed Safety Net Committee, Report, p.6.

and hence did not require the same degree of ongoing involvement from the Federal Government, it is also true that there was much dissatisfaction on both the Federal and provincial government side with a shared-cost approach. The Federal Government was unhappy with the weakness of the incentives for cost controls in shared-cost programs (the so called 50 cent dollars) and the openendedness and unpredictability of the resulting expenditures. The provincial governments were discontented with what they viewed as federal interference in their priority setting process and federal restrictions on the way they could deliver their programs and the lack of autonomy that this implied. It is important that the broader implications of a move to greater reliance on shared-cost programs for federal-provincial fiscal relations be fully understood. The traditional dissatisfaction with other shared-cost programs is likely to arise in the future with respect to the new proposed agricultural shared-cost programs.

A common factor behind the move to shared-cost programs in agriculture and the cutback in EPF and CAP transfers to provinces is the need to curtail spending and reduce the deficit. In the case of agriculture, the need for fiscal restraint is leading to an increasing reliance on shared-cost programs; in the case of EPF and CAP, it is leading to a decrease in the resources devoted to the programs. The current climate of fiscal restraint will probably make it more difficult to secure provincial cooperation in establishing agricultural shared-cost programs. Even in the 1950s and 1960s when the Federal Government was able induce the provinces to participate in shared-cost programs in hospital care, medicare and social welfare by providing substantial additional funding, federal-provincial negotiations over shared-cost programs were far from harmonious.

3.3.3 The Fiscal Arrangements and Fiscal Capacity

This study has provided some information that should be useful in demonstrating that the provinces can not claim that their fiscal capacity is so limited that they can not afford to participate in the proposed agricultural shared-cost programs now under development.

The Fiscal Arrangements provide for equalization which brings the fiscal capacity of low income provinces up to near (approximately 92 per cent of) the national average and for stabilization which protect provinces against declines in revenue. This has two important implications for agricultural shared-cost programs. First, it makes it very difficult for provinces to make a convincing case that they can not afford to participate in a shared-cost program. Second, it renders unnecessary an equalization component in shared-cost programs such as would occur if lower income provinces were expected to bear a lower portion of the cost of the program.

An examination of the fiscal positions of the Federal Government and the provinces shows that the federal deficit is much worse on a per capita base than any of the provinces (See Chart 8). The Federal Government also has a debt burden that is almost three times as high as that of the provinces on average (See Chart 9). Even Saskatchewan and Manitoba, the provinces with the highest debt burdens have a much lower debt burden than the Federal Government. No province can argue convincingly that it is in a worse position than the Federal Government to pay its share of the cost of an agricultural shared-cost program.

Variations in per capita spending is much less across provinces than fiscal capacity (See Table 4). The spending effort of no province is so heavy that it can not afford to participate in any of the agricultural shared-cost program likely to be introduced.

Also while the amount spent on agriculture varies significantly from province to province, even the provinces with the heaviest expenditures spend a relatively small fraction of their budgets on agriculture (See Table 5). Thus no province can legitimately claim that it spends so much on agricultural programs that it does not have enough left to participate in any of the agricultural shared-cost programs currently under consideration.

3.4 GUIDELINES TO ASSIST IN THE DEVELOPMENT OF FUTURE SHARED-COST PROGRAMS IN AGRICULTURE

Two useful sources of principles to guide the development of future shared-cost programs in agriculture are the Breau Task Force on Federal-Provincial Fiscal Arrangements and Growing Together, the Department of Agriculture discussion paper.

The Breau Task Force enunciated six principles that fiscal arrangements should follow. Fiscal arrangements should:

1) provide governments with access to sufficient fiscal resources;

2) be fiscally responsible;

3) provide for fiscal equalization;

4) maintain sufficient federal control over the personal and corporate income tax for stabilization purposes;

5) establish uniformity in fiscal relations between the federal government and the provincial governments; and

6) provide for a harmonization of federal and provincial policies and priorities.

Principles 2, 5, and 6 are directly relevant for shared-cost programs in agriculture.

The discussion paper Growing Together, A Vision for Canada's Agri-Food Industry advanced four fundamental policy pillars for agricultural policy of more market responsiveness, greater self reliance in the agri-food sector, a national policy that recognizes regional diversity, and increased environmental sustainability. It also provided seven principles for action for the examination and design of revised safety net programs. The Grain and Oilseeds Safety Net Committee provided a set of twenty principles for assessing safety net options.[33] The Federal paper on Federal/Provincial Roles and Responsibilities also provides a set of seven principles for determining federal and provincial responsibilities in the agricultural sector.[34] These principles are all important for agriculture shared-cost programs and need not be repeated here.

Taking into account all of these principles, I put forward the following fifteen principles that I consider to be particularly useful in establishing guidelines for shared-cost programs in agriculture:

1) Cooperative Federalism;

2) National Program Objectives and Criteria

3) Equality of Access;

4) Equity of Support across Commodities/Regions;

5) Visibility;

6) Accountability;

7) Fiscal Responsibility;

8) Cost Effectiveness;

---

[33] Agriculture Canada, Growing Together, pp.34-36 and 52-54. Grain and Oilseeds Safety Net Committee, Report to Ministers of Agriculture, April 30, 1990, pp.14-15.

[34] Agriculture Canada, "Roles and Responsibilities," August 1990.

9) Resource Neutrality;

10) Adjustment;

11 Canadian Common Market

12) Non-trade Distorting;

13) Stability;

14) Consistency;

15) Equitable Cost Sharing.

To elaborate on these principles,

1) Cooperative Federalism: The programs should be entered into in the spirit of cooperative federalism. The program design and implementation should involve extensive consultation with the provinces. While a federal-provincial consensus on all aspects of the program may be impossible to achieve, the main features of the program should at least be acceptable to the provinces. The current process that delegates responsibility for developing policy proposals to a federal/provincial committees with producer representation such as the Grain and Oilseeds Safety Net Committee and the Federal/Provincial Safety Net Committee reporting to Ministers of Agriculture is a good way to build a consensus and is certainly consistent with the spirit of cooperative federalism. The National Signatory Committee, which will be comprised of federal, provincial and producer representatives and will oversee the proposed GRIP, is a good way to ensure continued cooperation as least insofar as the proposed GRIP is concerned. On the other hand, the provinces complaint about the lack of prior consultation before the announcement of the 1990 Federal-Provincial Assistance Program suggests that the process may not always be as cooperative as it should be.[35]

---

[35] Conference of Ministers and Deputy Ministers of Agriculture, "Joint Provincial Paper on Federal-Provincial Cost Sharing /Offloading," August 21-23, 1990, p.11.

2) National Program Objectives and Criteria: The program should have a clear and detailed explicit statement of objectives against which program performance can be monitored. While there can be some flexibility in program administration from one region to another to reflect unique regional needs, it is important that the program's objective be national. The main purpose of a shared-cost program must be to establish national standards or to deal with interprovincial spillovers. Less fundamentally but also importantly, there should be clear program criteria for administration and explicit mechanisms for monitoring. If necessary, funds can withheld if the program is not being run in accordance with its objectives and criteria.

3) Equality of Access: The Federal Government should treat all provincial governments equally. If a program is available to one government, it should be available to all provincial governments on the same terms. Program participation should also be available to all individuals on the same basis.

4) Equity of Support Across Commodities/Regions: The programs should provide equity of support across commodities and regions. The interpretation of equity in this sense is a difficult issue that is being addressed by the Federal-Provincial Safety Net Committee.[36] The question is whether market and production risk or market receipts should be covered. The Grain and Oilseed Safety Net Committee defined equitable treatment to be when government contributions are comparable over the long run for different commodities and regions.[37]

5) Visibility: The Federal Government's involvement in the program should be highly visible. This is important to ensure that taxpayers know what their tax dollars are being used for. A government whose programs are not visible is not easily held answerable to the public. It is also important that beneficiaries of the shared-cost programs realize that the Federal Government is behind the program. This is important in fostering a sense of nationhood and mutual interdependence. The Federal Government has had a problem in the past with other shared-cost programs where the provinces have done little to acknowledge the important federal role. The 1986 evaluation of Crop Insurance revealed that most beneficiaries do not recognize the federal contribution to the program. How the program is presented and the check delivered are the important factors in ensuring federal visibility. Crop Insurance is delivered by the provinces and the checks are provincial checks. An effort has been made to raise federal visibility for Crop Insurance by titling the program Canada/provincial Crop Insurance

---

[36] Federal-Provincial Safety Net Committee, Report to Ministers of Agriculture, p.10.

[37] Grain and Oilseed Safety Net Committee, Report to Ministers of Agriculture, August 1990, p.6.

Program and designing special checks. The National Tripartite Stabilization programs are delivered as national programs with special checks. Under the Special Federal/Provincial Assistance Program most provinces will not have time to design program checks. Ensuring that the Federal Government gets full credit in program publicity and that special program checks are designed are important for federal visibility.

6) Accountability: The provincial governments must be held accountable for their use of federal funds. The provincial governments must be able to demonstrate to the Federal Government that they are administering the program in a cost efficient and economical manner and that the objectives of the program are being faithfully pursued. The Federal Government will have to conduct post audits on program spending. These should be carried out by the Office of the Auditor General rather than a private accounting firm because of the Auditor General has greater public credibility and can carry out a Value for Money audit. The Auditor General presently audits Crop Insurance and the National Tripartite Stabilization programs. The Auditor General will reportedly be expressing some concern in this year's report about split responsibility in some agricultural shared-cost programs and the difficulties this creates in determining accountability. The Auditor General is currently looking at safety net programs and will comment on them in next year's report. His comments should be helpful in addressing the accountability issue. The Parliamentary Task Force emphasized that the administrative arrangements must provide sufficient information to the Federal Government that federal ministers can discharge their obligations to answer in the House for the disposition of the transfer.[38]

7) Fiscal Responsibility: The programs should have predictable costs and should be financed in a fiscally responsible manner consistent with the current climate of fiscal restraint.

8) Cost Effectiveness: The programs should be cost effective and should be designed to accomplish their objectives at the minimum cost. A shared-cost program is preferable to separate federal and provincial programs when it is more efficient.

---

[38] Parliamentary Task Force, Ibid., p.196.

9) Resource Neutrality: The programs should not cause distortions in production decisions that run counter to comparative advantage. This implies neutrality with respect to commodity production decisions, asset values, marketing decisions, and the environment.[39]

10) Adjustment: The programs should foster adjustment to emerging market forces and should not provide subsidies to maintain uneconomic agricultural production. The programs should build on the strengths of the agricultural sector and should foster its efficiency and competitiveness.

11) Canadian Common Market: The programs should foster the development of a Canadian Common Market in agricultural products. The programs should seek to eradicate interprovincial trade barriers; foster interprovincial trade; equalize agricultural subsidies across provinces and commodities; and eliminate subsidy competition among provinces. The National Tripartite Stabilization program for redmeats was important in putting an end to provincial competition to establish more favourable subsidies for the industry within provincial boundaries.

12) Non-Trade Distorting: The programs should be consistent with Canada's obligations under GATT and should not be trade distorting. Canada's participation in the Cairns group and opposition to grain subsidy war between the U.S. and the EEC should be borne in mind. The programs should also not be subject to countervail. Currently, whenever subsidies are not generally available and can be shown to cause injury to American producers, the U.S. can impose countervailing duties under their trade laws. Stabilization payments have attracted increasing attention in countervail cases. Stabilization payments to pork producers were counted in a recent successful U.S. countervail action. The proposal currently being considered in the GATT negotiations calls for the establishment of a subsidy ceiling that will be phased down by one third over a ten year period. Any subsidy that is under this ceiling would not be countervailable. Because of its responsibility for international trade, the Federal Government is more sensitive about the implications of agricultural support programs for Canada's international trading arrangements. In addition, with so many overlapping and competing federal and provincial agriculture programs the full extent of the subsidy for any particular commodity in a specific region is a difficult issue that requires complex calculations. The overall net benefit calculation developed by Agriculture Canada is a useful concept with important implications for international trading relationships. These are important reasons why the Federal Government needs to take the lead in establishing agricultural safety-net programs.

---

[39] This is a criteria advanced by the Federal-Provincial Safety Net Committee, Report, p.10.

13) Stability: The programs should provide a stable planning horizon for the provincial governments and should not be subject to cancellation or modification without adequate notice. The final decision in the CAP reference might put restrictions on the ability of Federal Government to alter unilaterally the terms of shared-cost programs.

14) Consistency: The programs should be consistent with other shared-cost programs in other areas. Otherwise they can be used as precedents by the provinces in arguing for changes in other shared-cost programs. It would be useful for the Department of Finance to review these programs and to prepare some guidelines for consideration.

15) Equitable Cost-Sharing: The degree of cost sharing should reflect the degree of interest of each level of government in the particular program to be cost shared. Perhaps it would be appropriate for the federal government to pay a larger share of the costs in areas where it has had the primary role such as Prairie grains and research and a lower share in areas such as extension where the provinces have had the primary role. The extent of any interprovincial spillovers in benefits should also be taken into consideration. The degree of cost sharing would have to be negotiated with the provinces as a group since it should be the same for all provinces for a particular program.

Another principle, which could be considered, is that of opting out. Since the 1965 Established Programs (Interim Arrangements) Act, the Federal Government has given the provinces the opportunity to opt out of certain shared-cost programs. The opting-out principle had gained such widespread acceptance that it would have been enshrined in the constitution if the Meech Lake Accord had been accepted. In my view, however, opting out is not a principle that should be generally applied to shared-cost programs in agriculture. The main difference between shared-cost programs in agriculture and shared-cost programs in other areas is that agriculture is a concurrent responsibility under the constitution whereas other shared-cost programs in such areas as health, welfare and education were introduced in areas of exclusive provincial jurisdiction. In agriculture the Federal government does not have to resort to its spending powers to justify its involvement. Consequently, restrictions on its spending powers such as those advocated by proponents of the provinces right to opt out need not apply.

The principle of equalization, such as occurs when lower income provinces are expected to bear a smaller portion of costs, should also as a rule not be applicable to shared-cost programs in agriculture. The fiscal capacity of provinces is equalized through the Equalization Program and thus including an equalization component in an

agricultural shared-cost program would be providing double equalization.[40] It is interesting to note that the Conference of Ministers and Deputy Ministers of Agriculture also concluded that "Ability to pay should be dealt with through a broader fiscal framework, such as equalization payments, rather than on a program by program basis."[41] The application of the principle of equalization to agricultural shared-cost programs would also constitute a bad precedent for other shared-cost programs where provinces bear the same proportion of program costs. On the other hand, in recognition of the unusually difficult situation currently facing grain farmers, it may be appropriate to phase in the move to equal treatment of all provinces by according temporarily lower cost shares to those provinces such as Saskatchewan and Manitoba that are hardest hit by the depression in the grain economy and are recipients of equalization.

The traditional justification of shared-cost programs in terms of spillovers also need not apply to agricultural shared-cost programs because of the Federal Government's shared jurisdiction over agriculture.

The desirability of a major shift towards reliance on shared-cost programs in agriculture can not be considered in isolation from the larger issue of the future of Confederation. Under Meech Lake the Canadian Confederation would have been more decentralized and a move to shared-cost programs in agriculture would have been consistent with the spirit of the times. In the post-Meech Lake era with Quebec reassessing its place in Confederation and the other provinces being forced to reexamine their own positions, the role of shared-cost programs is a more open and in many ways more difficult question.

---

[40] George Carter argues that further equalization through conditional grants is inappropriate (Conditional Grants, p.67). Robin Boadway writes that the unconditional grant is the appropriate tool for equalizing relative differences among provinces (Intergovernmental Transfers in Canada, p.81). These are common views among Canadian specialists in public finance.

[41] Conference of Ministers and Deputy Ministers of Agriculture, "Joint Provincial Paper on Federal-Provincial Cost Sharing /Offloading," August 21-23, 1990, p.18.

3.5 SUGGESTIONS FOR FURTHER WORK

This paper provides all of the general information on the Fiscal Arrangements that should be necessary as background for the development of shared cost programs in agriculture. Further work on the Fiscal Arrangements should be in response to the specific information requirements of the ongoing policy development work. There are several areas in which more work might be helpful:

- A paper providing guidelines for shared-cost programs could be requested from the Department of Finance. This would be helpful in ensuring that the new shared-cost programs in agriculture are consistent in approach to other shared-cost programs.

- Fully articulated multi-year models of program expenditures under the new proposed shared-cost programs could be developed. Year-by-year projections of financial flows into and out of funds could be prepared under alterative assumptions about coverage, crop price and yields by province for each of the three participants - federal government, provincial governments, and producers. Since this would be an extension of work already underway, it could be best done by the appropriate Agriculture Canada Task Forces.

- A thorough analysis of the agricultural spending needs of provincial governments could be done. Agricultural spending could be related to its principal determinants. Spending on different types of programs could be looked at on a per farmer basis or as a share of the value of production of particular agricultural commodities and could be compared across provinces. This would provide a better understanding of existing provincial programs and how they might be related to new proposed shared-cost programs.

- Further work could be done to examine the argument put forward by the Saskatchewan government that it can not afford to contribute as much to shared cost programs in agriculture because of its greater dependence on agriculture and because it has to make the same expenditures on health, education and social assistance as the other provinces. This issue could be addressed through a detailed examination of flexibility of provincial government expenditures using data from Statistics Canada's Financial Management System.

- Existing agricultural shared cost programs could be examined in more detail and their implications for future agricultural shared-cost programs could be further explored. The programs of most interest would be Crop Insurance, National Tripartite Stabilization Programs, the Special Federal/Provincial Assistance Program, and the Canadian Crop Drought Assistance Program. This exercise would be most valuable if it were done by those Agriculture Canada officials most familiar with existing shared cost programs.

SELECTED REFERENCES

Boadway, Robin, "Federal-Provincial Transfers in Canada: A Critical Review of the Existing Arrangements," in Mark Krasnick (ed.) Fiscal Federalism, Volume 65, Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1986), pp.1-47.

Boadway, Robin, Intergovernmental Transfers in Canada (Toronto: Canadian Tax Foundation, 1980).

Breton Albert and Anthony Scott, The Economic Constitution of Federal States (Toronto: University of Toronto Press, 1978).

British Columbia Court of Appeal, Reference re: Canada Assistance Plan Act [1990] B.C.J. No.1377, June 15, 1990.

Carter, George E., Canadian Conditional Grants Since World War II (Toronto: Canadian Tax Foundation, 1971).

Conference of Ministers and Deputy Ministers of Agriculture, "Joint Provincial Paper on Federal-Provincial Cost Sharing /Offloading," August 21-23, 1990.

Courchene, Thomas J., Social Policy for the 1990s: Agenda for Reform (Toronto: C.D. Howe Institute, 1987).

Department of Finance, Federal Transfers to Provinces, May 1990.

Department of Finance, Federal-Provincial Relations Division, "The Fiscal Equalization Program," April 1990.

Dupre, J.S., "Contracting Out: A Funny Thing Happened on the Way to the Centennial," Report of the Proceedings of the Eighteenth Annual Meeting (Toronto: Canadian Tax Foundation, 1965).

Economic Council of Canada, Financing Confederation: Today and Tomorrow, (Ottawa: Minister of Supply and Services, 1982).

Farm Finance and Taxation Division, Policy Branch, Agriculture Canada, Farm Income Financial Conditions and Government Expenditures, July 1990.

Federal-Provincial Relations Office, Federal-Provincial Programs and Activities: A Descriptive Inventory 1989-90, (Ottawa:1990).

Federal-Provincial Safety Net Committee, Report to Ministers of Agriculture, June 30, 1990.

Fletcher, Frederick J. and Donald C. Wallace, "Federal-Provincial Relations and the Making of Public Policy in Canada," in Richard Simeon (ed.) Division of Powers and Public Policy, Volume 61, Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1986), pp.125-205.

Gramlich, Edward M., "Federalism and Federal Deficit Reduction," National Tax Journal, Vol.XL, No. 3 (1987), pp.299-313.

Jackson, Robert J. and Doreen Jackson, Politics in Canada, Second Edition (Scarborough: Prentice Hall, 1990).

La Forest, Gerard V., The Allocation of Taxing Power under the Canadian Constitution (Toronto: Canadian Tax Foundation, 1967).

Bora Laskin, Canadian Constitutional Law (Toronto: Carswell, 1966), p.666.

MacEachen, Allan J., "Federal-Provincial Fiscal Arrangements in the Eighties," A Submission to the Parliamentary Task Force on the Federal-Provincial Fiscal Arrangements, April 23, 1981.

Moscovitch, Allan, "The Canada Assistance Plan: A Twenty Year Assessment, 1966-86," in Katherine A. Graham (ed.), How Ottawa Spends 1988/89 (Ottawa: Carleton University Press, 1988).

Oates, Wallace E., Fiscal Federalism (Chicago: Harcourt, Brace, Jovanovich, 1972).

Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, Fiscal Federalism in Canada, (Ottawa: Minister of Supply and Services, 1981).

Perry, D.B., "Federal-Provincial Fiscal Arrangements for 1982-87," Canadian Tax Journal, Vol. 31 (January-February, 1982), pp.30-41.

Petter, Andrew, "Federalism and the Myth of Federal Spending Power," Canadian Bar Review, 448, (1989), pp.455-63.

Royal Commission on Dominion-Provincial Relations, Report (Ottawa: the Queen's Printer, 1940.

Smiley, Donald V., Conditional Grants and Canadian Federalism (Toronto: Canadian Tax Foundation, 1963).

Simeon, Richard, "Fiscal Federalism in Canada: A Review Essay," Canadian Tax Journal, Vol. 30 (January-February, 1982), pp.41-51.

Trudeau, P.E., Federal Provincial Grants and the Spending Powers of Parliament (Ottawa: Queen's Printer, 1969).

Ward, Norman, Dawson's The Government of Canada, Sixth Edition (Toronto: University of Toronto Press, 1987).

APPENDIX TABLES

APPENDIX TABLE 1A
EQUALIZATION ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1957-58	12	3	17	9	46	0	14	20	12	6	139
1958-59	20	6	26	23	63	0	14	20	13	7	192
1959-60	22	6	28	25	78	0	15	24	16	6	219
1960-61	20	6	26	24	70	0	13	22	15	6	202
1961-62	21	5	26	24	73	0	13	23	14	6	206
1962-63	24	7	29	26	69	0	14	23	12	0	203
1963-64	24	7	31	27	65	0	13	22	7	0	197
1964-65	27	8	38	33	96	0	19	22	1	0	244
1965-66	35	10	44	40	133	0	27	29	0	0	318
1966-67	39	11	48	44	151	0	31	31	0	0	355
1967-68	66	14	75	64	269	0	40	25	0	0	552
1968-69	73	16	84	72	387	0	49	26	0	0	708
1969-70	96	20	97	88	431	0	53	66	0	0	849
1970-71	97	20	100	93	420	0	55	99	0	0	884
1971-72	105	20	108	93	453	0	72	89	0	0	940
1972-73	114	25	124	103	534	0	68	102	0	0	1070
1973-74	156	33	186	146	737	0	113	116	0	0	1487
1974-75	175	43	232	169	918	0	125	51	0	0	1711
1975-76	189	48	252	187	1049	0	151	0	0	0	1877
1976-77	229	54	298	232	1063	0	153	10	0	0	2041
1977-78	278	63	342	273	1322	0	237	58	0	0	2573
1978-79	321	72	375	331	1483	0	292	33	0	0	2097
1979-80	344	81	428	310	1766	0	344	74	0	0	3346
1980-81	364	92	469	370	2035	0	368	30	0	0	3727
1981-82	427	107	528	445	2490	0	399	0	0	0	4395
1982-83	464	118	574	488	2782	0	439	0	0	0	4865
1983-84	540	125	605	517	2977	0	466	0	0	0	5229
1984-85	578	129	620	541	3074	0	480	0	0	0	5422
1985-86	653	134	596	604	2728	0	427	0	0	0	5143
1986-87	678	138	620	643	2942	0	471	285	0	0	5775
1987-88	805	163	732	722	3144	0	726	298	0	0	6589
1988-89	843	178	824	786	3370	0	800	448	0	0	7250
1989-90	896	193	865	852	3618	0	832	504	0	0	7761
1990-91	941	203	918	903	3866	0	884	494	0	0	8209

APPENDIX TABLE 1B
EQUALIZATION ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Dollars Per Capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1957-58	28	31	25	15	10	0	16	23	10	4	
1958-59	47	56	37	40	13	0	15	23	11	4	
1959-60	50	59	39	42	16	0	17	26	13	4	
1960-61	45	54	36	41	14	0	15	24	12	4	
1961-62	46	51	36	40	14	0	15	25	11	3	
1962-63	51	65	39	42	13	0	15	25	9	0	
1963-64	50	67	42	44	12	0	14	23	5	0	
1964-65	56	74	50	54	17	0	19	23	1	0	
1965-66	72	87	58	65	23	0	28	31	0	0	
1966-67	79	96	63	72	26	0	32	33	0	0	
1967-68	132	130	99	103	46	0	41	26	0	0	
1968-69	145	148	110	115	65	0	51	28	0	0	
1969-70	186	176	125	140	72	0	54	69	0	0	
1970-71	188	181	127	148	70	0	56	105	0	0	
1971-72	202	179	136	147	75	0	73	96	0	0	
1972-73	215	223	156	161	88	0	69	112	0	0	
1973-74	290	292	231	226	121	0	113	128	0	0	
1974-75	323	369	286	258	150	0	124	56	0	0	
1975-76	344	407	308	282	170	0	149	0	0	0	
1976-77	411	460	360	343	170	0	150	11	0	0	
1977-78	493	524	410	398	211	0	230	62	0	0	
1978-79	565	587	446	477	236	0	282	35	0	0	
1979-80	600	657	504	443	281	0	333	77	0	0	
1980-81	643	747	555	533	319	0	359	31	0	0	155
1981-82	751	870	623	640	387	0	388	0	0	0	181
1982-83	820	967	675	700	431	0	425	0	0	0	198
1983-84	945	1010	706	735	460	0	446	0	0	0	211
1984-85	1011	1032	718	763	474	0	455	0	0	0	217
1985-86	1142	1063	685	850	419	0	402	0	0	0	204
1986-87	1193	1086	710	905	450	0	440	282	0	0	228
1987-88	1417	1283	833	1014	477	0	673	293	0	0	257
1988-89	1482	1378	934	1101	507	0	738	442	0	0	280
1989-90	1569	1483	977	1185	541	0	767	500	0	0	296
1990-91	1642	1560	1030	1248	572	0	811	494	0	0	309

APPENDIX TABLE 1C
EQUALIZATION ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Per Cent Change)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1958-59	70.3	80.6	52.9	162.8	36.7		-4.9	0.5	11.7	21.8	38.0
1959-60	10.0	7.1	6.1	8.8	23.4		9.6	15.2	22.4	-11.9	14.3
1960-61	-8.1	-6.7	-7.2	-2.4	-10.5		-10.1	-6.8	-6.1	3.4	-7.8
1961-62	3.4	-3.6	1.5	0.4	4.0		0.8	6.4	-7.1	-8.2	1.9
1962-63	14.3	27.8	10.6	5.8	-5.4		2.2	-1.7	-14.0	-100.0	-1.3
1963-64	-0.8	4.3	7.6	5.9	-5.1		-5.8	-4.4	-42.3		-3.3
1964-65	13.9	12.5	20.4	22.2	47.2		45.0	0.5	-83.1		24.1
1965-66	28.8	17.3	16.2	20.9	38.5		45.5	32.7	-100.0		30.2
1966-67	12.3	10.5	9.4	10.8	13.7		12.1	7.5			11.8
1967-68	67.6	35.2	56.8	43.9	77.6		30.8	-20.1			55.6
1968-69	11.4	14.1	11.9	12.9	43.9		23.6	5.2			28.1
1969-70	30.7	20.4	15.2	22.6	11.4		6.7	150.4			20.0
1970-71	1.7	2.1	2.8	5.8	-2.5		4.0	49.8			4.0
1971-72	8.1	0.5	8.1	-0.1	7.9		31.6	-10.3			6.4
1972-73	8.1	22.5	15.1	11.0	17.9		-5.4	14.9			13.9
1973-74	37.2	32.7	50.1	41.8	38.0		65.3	13.9			39.0
1974-75	12.0	27.6	24.7	15.2	24.6		10.6	-56.5			15.1
1975-76	8.2	12.2	8.6	11.2	14.3		21.1	-100.0			9.7
1976-77	21.2	14.0	18.3	24.0	1.3		1.7	NA			8.8
1977-78	21.3	15.6	14.8	17.6	24.4		54.3	459.6			26.1
1978-79	15.5	13.8	9.7	21.2	12.2		23.3	-43.8			13.0
1979-80	7.2	12.8	13.9	-6.3	19.1		17.8	124.8			15.1
1980-81	5.7	13.7	9.6	19.4	15.2		7.2	-59.7			11.4
1981-82	17.3	16.4	12.6	20.2	22.4		8.3	-100.0			17.9
1982-83	8.7	10.3	8.8	9.7	11.7		10.2				10.7
1983-84	16.3	6.2	5.4	5.9	7.0		6.1				7.5
1984-85	7.2	3.0	2.5	4.6	3.3		2.9				3.7
1985-86	12.9	3.9	-3.9	11.7	-11.3		-10.9				-5.2
1986-87	3.8	2.9	3.9	6.4	7.8		10.3	NA			12.3
1987-88	18.8	18.1	18.1	12.3	6.9		54.1	4.7			14.1
1988-89	4.8	9.1	12.6	8.9	7.2		10.2	50.3			10.0
1989-90	6.2	8.5	5.0	8.4	7.4		4.0	12.6			7.0
1990-91	5.0	5.5	6.1	6.0	6.8		6.2	-1.9			5.8
Average Change 1980-81 to 1990-91	10.0	8.3	7.0	9.3	6.6		9.2	32.5			8.2

APPENDIX TABLE 2A
EPF ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	228	50	341	281	2579	3460	414	387	944	1091	9803
1981-82	255	55	380	312	2888	3868	460	434	1117	1235	11036
1982-83	286	62	429	352	3262	4387	521	493	1167	1405	12398
1983-84	314	68	470	386	3550	4813	572	542	1280	1538	13570
1984-85	334	73	504	413	3786	5192	615	584	1364	1661	14568
1985-86	356	79	543	442	1059	5612	663	628	1463	1788	15680
1986-87	375	84	576	468	4311	6006	706	666	1566	1904	16710
1987-88	392	88	605	491	4544	6386	744	700	1639	2016	17657
1988-89	409	93	636	514	4780	6788	781	729	1725	2149	18659
1989-90	431	98	670	543	5052	7228	819	761	1835	2308	19803
1990-91	431	99	673	545	5080	7330	823	763	1864	2349	20016

APPENDIX TABLE 2B
EPF ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Dollars Per Capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	404	403	404	404	404	404	404	404	441	409	408
1981-82	448	446	449	449	449	448	449	449	499	450	453
1982-83	506	507	504	505	505	504	504	504	504	504	504
1983-84	550	547	548	549	548	547	546	548	547	547	547
1984-85	584	584	583	583	583	583	583	583	583	583	583
1985-86	623	623	623	623	623	623	623	623	623	623	623
1986-87	660	657	659	659	659	659	659	659	659	659	659
1987-88	689	691	689	690	689	689	689	689	689	689	689
1988-89	719	719	721	720	720	720	720	719	722	721	720
1989-90	754	756	756	755	755	755	755	755	757	756	755
1990-91	751	755	755	753	751	753	755	763	755	750	753

APPENDIX TABLE 2C
EPF ENTITLEMENTS BY PROVINCE, 1980-81 TO 1989-90
(Per Cent Change)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1981-82	11.5	10.7	11.4	11.2	12.0	11.8	11.2	12.1	18.3	13.2	12.6
1982-83	12.4	12.6	12.8	12.6	13.0	13.4	13.1	13.5	4.5	13.8	12.3
1983-84	9.7	9.7	9.6	9.7	8.8	9.7	9.8	9.9	9.6	9.5	9.4
1984-85	6.3	7.7	7.3	7.0	6.7	7.9	7.7	7.7	6.6	8.0	7.4
1985-86	6.7	7.5	7.7	7.1	7.2	8.1	7.7	7.7	7.3	7.7	7.6
1986-87	5.2	6.4	6.0	5.9	6.2	7.0	6.5	6.0	7.0	6.5	6.6
1987-88	4.5	5.0	5.2	4.9	5.4	6.3	5.3	5.2	4.7	5.9	5.7
1988-89	4.4	5.7	5.0	4.8	5.2	6.3	5.0	4.2	5.2	6.6	5.7
1989-90	5.3	6.0	5.4	5.5	5.7	6.5	4.9	4.3	6.4	7.4	6.1
1990-91	0.0	0.2	0.4	0.4	0.5	1.4	0.5	0.3	1.6	1.8	1.1
Average Change	6.5	7.1	7.0	6.9	7.0	7.8	7.1	7.0	7.0	8.0	7.4

APPENDIX TABLE 3A
CANADA ASSISTANCE PLAN PAYMENTS BY PROVINCE, 1980-81 TO 1989-90
(Millions of Dollar)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	53	13	61	79	851	534	69	72	155	314	2206
1981-82	60	16	71	90	993	619	85	87	240	341	2612
1982-83	66	18	87	108	1165	742	92	120	306	474	3190
1983-84	71	17	93	112	1399	831	109	143	326	531	3643
1984-85	74	18	105	126	1513	944	132	144	334	599	4001
1985-86	76	21	105	137	1606	1052	141	149	390	594	4284
1986-87	86	20	124	145	1546	1132	155	161	427	632	4439
1987-88	88	22	128	152	1581	1320	164	157	443	653	4726
1988-89	91	23	154	150	1654	1511	198	155	488	663	5109
1989-90	100	24	157	159	1716	1789	189	152	525	684	5515
1990-91	103	24	173	170	1752	1946	210	172	534	737	5841

APPENDIX TABLE 3B
CANADA ASSISTANCE PLAN PAYMENTS BY PROVINCE, 1980-81 TO 1989-90
(Dollars Per Capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	93	102	72	113	133	62	68	75	72	118	92
1981-82	105	132	83	129	154	72	83	90	107	124	107
1982-83	117	150	102	155	180	85	89	123	132	170	130
1983-84	125	134	109	159	216	94	104	144	139	189	147
1984-85	130	141	121	178	233	106	125	143	143	210	160
1985-86	132	164	120	193	247	117	133	147	166	207	170
1986-87	151	156	142	204	236	124	144	159	180	219	175
1987-88	156	171	146	214	240	142	152	155	186	223	184
1988-89	160	175	174	210	249	160	182	153	204	223	197
1989-90	176	185	178	221	256	187	174	150	217	224	210
1990-91	180	185	194	235	259	200	192	172	216	235	220

APPENDIX TABLE 3C
CANADA ASSISTANCE PLAN PAYMENTS BY PROVINCE, 1980-81 TO 1989-90
(Per Cent Change)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1981-82	13.3	29.6	16.9	14.6	16.6	16.0	22.2	20.5	54.6	8.9	18.4
1982-83	10.9	13.0	22.3	19.7	17.4	20.0	8.4	37.8	27.5	38.8	22.1
1983-84	8.0	-9.3	7.6	3.7	20.1	11.9	18.6	18.8	6.6	12.1	14.2
1984-85	3.9	6.0	12.5	13.0	8.1	13.6	21.4	0.7	2.5	12.7	9.8
1985-86	2.2	17.6	-0.2	8.5	6.1	11.5	6.9	3.6	16.6	-0.9	7.1
1986-87	12.9	-4.3	19.0	6.0	-3.7	7.6	9.4	8.1	9.6	6.5	3.6
1987-88	3.4	9.6	3.1	5.0	2.3	16.6	6.2	-2.2	3.7	3.3	6.4
1988-89	3.3	4.1	20.0	-1.7	4.6	14.5	20.5	-1.2	10.2	1.6	8.1
1989-90	10.0	6.2	2.2	6.0	3.8	18.4	-4.3	-2.4	7.6	3.2	7.9
1990-91	2.5	0.4	9.9	7.1	2.1	8.8	10.7	13.4	1.7	7.7	5.9
Average Change	7.0	6.8	11.1	8.0	7.5	13.8	11.7	9.1	13.2	8.9	10.2

APPENDIX TABLE 4A
TOTAL OF EQUALIZATION, EPF AND CAP TRANSFERS BY PROVINCE, 1980-81 TO 1989-90
(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	603	144	825	686	5328	3994	815	470	1099	1404	15403
1981-82	694	167	928	798	6192	4487	907	521	1357	1576	17669
1982-83	765	187	1038	896	6997	5130	1015	613	1473	1879	20040
1983-84	870	199	1119	963	7712	5643	1105	684	1606	2069	22020
1984-85	926	207	1177	1022	8153	6135	117[illegible]	727	1698	2260	23536
1985-86	1018	220	1186	1118	8138	6664	11[illegible]	777	1853	2382	24595
1986-87	1065	227	1257	1186	8511	7139	1269	1037	1993	2536	26281
1987-88	1202	256	1393	1287	8939	7706	1547	1057	2082	2669	28207
1988-89	1255	276	1532	1366	9403	8299	1680	1218	2213	2812	30132
1989-90	1333	297	1609	1465	9977	9017	1742	1302	2360	2992	32172
1990-91	1376	307	1675	1523	10257	9276	1810	1306	2397	3086	33095

APPENDIX TABLE 4B
TOTAL OF EQUALIZATION, EPF AND CAP TRANSFERS BY PROVINCE, 1980-81 TO 1989-90
(Dollars Per Capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1980-81	1065	1171	976	987	834	466	796	490	513	527	641
1981-82	1221	1359	1095	1147	962	520	884	539	606	574	726
1982-83	1351	1533	1221	1286	1083	589	983	627	636	674	815
1983-84	1524	1601	1305	1369	1191	641	1057	692	686	735	888
1984-85	1619	1657	1362	1443	1256	689	1115	726	726	793	942
1985-86	1780	1744	1362	1575	1249	740	1107	771	789	830	977
1986-87	1875	1787	1440	1671	1301	783	1185	1026	839	878	1037
1987-88	2116	2018	1586	1807	1356	832	1434	1040	875	912	1101
1988-89	2206	2139	1737	1913	1416	880	1550	1201	926	944	1163
1989-90	2335	2283	1816	2038	1491	941	1605	1293	974	980	1227
1990-91	2401	2351	1879	2104	1517	953	1661	1306	971	986	1245

APPENDIX TABLE 4C
TOTAL OF EQUALIZATION, EPF AND CAP TRANSFERS BY PROVINCE, 1980-81 TO 1989-90
(Per Cent Change)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Canada
1981-82	15.1	16.1	12.5	16.4	16.2	12.3	11.2	11.0	23.4	12.2	14.7
1982-83	10.2	11.8	11.9	12.3	13.0	14.3	12.0	17.5	8.6	19.2	13.4
1983-84	13.8	6.1	7.8	7.4	10.2	10.0	8.9	11.7	9.0	10.2	9.9
1984-85	6.4	4.3	5.2	6.2	5.7	8.7	6.5	6.2	5.8	9.2	6.9
1985-86	10.0	6.1	0.8	9.4	-0.2	8.6	0.1	6.9	9.1	5.4	4.5
1986-87	4.6	3.2	6.0	6.1	4.6	7.1	7.8	33.4	7.5	6.5	6.9
1987-88	12.9	13.0	10.8	8.5	5.0	7.9	21.9	2.0	4.5	5.2	7.3
1988-89	4.4	7.6	10.0	6.1	5.2	7.7	8.6	15.2	6.3	5.4	6.8
1989-90	6.2	7.6	5.0	7.3	6.1	8.7	3.7	6.9	6.6	6.4	6.8
1990-91	3.2	3.3	4.1	4.0	2.8	2.9	3.9	0.3	1.6	3.2	2.9
Average Change	8.6	7.9	7.3	8.3	6.8	8.8	8.3	10.8	8.1	8.2	7.9

SOURCES:

The data on fiscal transfers was provided by the Federal Provincial Relations Division of the Department of Finance. The following sources and notes were also given:

Equalization:

Data for 1957-58 to 1979-80 from The Fiscal Equalization Program, April 1980.

1990-91 Second Estimate, March 30, 1990
1989-90 Fourth Estimate, March 30, 1990
1988-89 Sixth Estimate, March 30, 1990
1987-88 and earlier years are final calculations

Established Programs Financing:

1990-91 Advance Calculation, April 10, 1990
1989-90 Second Adjustment to Advance, December 11, 1989
1988-89 First Interim Adjustment, March 8, 1990
1987-88 Second Interim Adjustment, March 8, 1990
1986-87 and earlier years are final calculations

Canada Assistance Plan:

1990-91 Health and Welfare Update, April 23, 1990
1989-90 Health and Welfare Update, April 23, 1990
Earlier years from the Public Accounts

Notes:

1. Equalization and EPF are annual entitlements. EPF excludes compensation for termination of the Revenue Guarantee (1980-81 and 1981-82). CAP values are annual payments.

2. Equalization includes basic and transitional payments only.

3. Established Programs Financing entitlements include both cash and tax transfers. CAP transfers to Quebec also include a tax abatement.

4. Equalization associated with the EPF transfer is included with both Fiscal Equalization and EPF. The value is subtracted from the total.